BOOKKEEPING

AND

ACCOUNTING EXERCISES

PART II

BY

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BENNETT'S BOOKKEEPING AND ACCOUNTING EXERCISES, PART II.

W. P. 2

PREFACE TO PART II

PART I of Bookkeeping and Accounting Exercises is designed for students of elementary bookkeeping. Part II is intended for more advanced students of bookkeeping and for those making a study of higher accounting. The exercises are designed to accompany and supplement the work of any textbook, but not to replace it; and the various problems are intended as graded drills in advanced bookkeeping and accountancy and to accustom the student to thought and research on different lines of business.

These drills may be used for personal study, for class drills, for home work, or for examination purposes, and part or all of an exercise may be assigned as a lesson as may seem advisable. They are adapted for use in advanced courses in High Schools or Commercial Colleges, and for Schools, Colleges, or Universities conducting courses in Accountancy. While the questions are carefully graded, some of them are made fairly difficult because plenty of easy matter can be found in the regular textbooks. No rules are given, but where necessary the instructor should make suggestions as to the procedure in working out the more difficult examples.

Special features of this book are the extended discussions of Business and Financial Statements, the chapter on Auditing, and the complete Manufacturing Set; also the treatment of Corporations, and the General Review Questions and Problems.

The onward march of business and the facility with which great industries are now conducted demand equal advancement in methods of accounting and systematizing. To meet this need, expert accountants are more than ever in demand as creators of efficient accounting methods and as supervisors and auditors. As a consequence a closer study is being made of accountancy,

of business efficiency, and of accounting systems. Indeed, the work of the accountant carries him into all fields of commerce and industry and requires of him a broad training along many lines. As a result of this efficient work the profession of Accountancy has been fully recognized and is gaining in power and dignity. Over twenty States have already dignified the profession by legislative enactments creating accountancy laws and defining the status of the accountant. These laws have established the degree of Certified Public Accountant (C.P.A), and only those who pass the required examinations are permitted to use the letters or to hold themselves out as certified public accountants. In England, Canada, and other British possessions a similar degree is given, that of Chartered Accountant (C.A.).

Persons desiring to make a more extended study of accountancy can do so through established resident and correspondence schools, but in any case to become an accountant requires of the student his very best effort at all times and careful, conscientious work.

R. J. BENNETT.

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BOOKKEEPING

AND

ACCOUNTING EXERCISES

PART II

BOOKKEEPING AND ACCOUNTING EXERCISES

PART II

BUSINESS AND FINANCIAL STATEMENTS

Trading, Manufacturing, Profit and Loss Account

At the end of each year, and sometimes more frequently, it is customary for business concerns to compile Revenue and Financial statements, showing the condition of the business at that particular time, and the profit or loss for the period just ended. These statements vary somewhat in form according to the nature and extent of the business, the amount of detail to be shown, and the ideas of the accountant; but they generally consist of a Balance Sheet and a Profit and Loss account. A Profit and Loss account (sometimes called a Revenue account) shows the earnings of the business side by side with the expenditure, the difference between the two being the net profit or net loss for the year. It is generally divided into sections for the purpose of enabling the manufacturer or merchant to make useful comparisons from year to year, and to locate more readily the causes of any noticeable increase or decrease in the year's gross or net earnings.

The Trading Account

The Trading account (sometimes called the Merchandise account) is the first section of the Profit and Loss account of the business of a non-manufacturing trader, or the second section of the same account taken from the books of a manufacturer. On its debit side it shows the total cost of the goods received into stock, made up of the invoice price plus freight and duty, less returns and allowances, to which must be added the value of the goods remaining unsold; the difference between the debit and credit sides then gives the gross profit of the business. In cases where the figures are to be used for the purpose of compiling comparative percentage statements, it is customary to deduct

the amount of the unsold goods from the debit side instead of adding it to the credit. Sometimes the Trading account of a manufacturing concern is kept in such a way as to include wages, factory expenses, etc., which more properly belong to a distinct Manufacturing account. The accompanying forms should be sufficient to enable the bookkeeper to construct a Trading account from any data which may come before him.

(Form 1)

Dr. TRADING ACCOUNT *Cr.*

Goods on Hand Jan. 1, 1908,		$6000	Sales for Year,	$30000	
Purchases for Year,	$18000		Less Returns,	1000	$29000
Freight and Duty,	1700		Goods on Hand Dec. 31, 1908,		8000
	19700				
Less Returns,	700	19000			
Gross Profit carried to Profit and Loss Account,		12000			
		$37000			$37000

For the purpose of making yearly comparisons Form 2 is preferable to the above, as it shows the actual cost of the goods sold, by deducting the inventory from the debit side, instead of adding it to the credit. This form is desirable in cases where accurate analyses are to be made.

(Form 2)

Dr. TRADING ACCOUNT *Cr.*

Goods on Hand Jan. 1, 1908,		$6000	Sales for Year,	$30000	
Purchases for Year,	$18000		Less Returns,	1000	$29000
Freight and Duty,	1700				
	19700				
Less Returns,	700				
	19000				
Deduct Inventory Dec. 31, 1908,	8000	11000			
		17000			
Gross Profit,		12000			
		$29000			$29000

In cases where the cost of manufacturing is not kept in a separate section by itself, the Trading account would include on its debit side wages, factory expenses, and any other items in the cost of production, or which form part of the full cost of the goods handled. A Trading account of this sort is here shown.

(Form 3)

Dr. TRADING ACCOUNT *Cr.*

Stock on Hand Jan. 1, 1908,		$7000	Sales,	$65000
Purchases to Dec. 31,	$28000			
Freight and Duty,	2800	30800		
Wages,		12000		
Factory Expenses,		1000		
		50800		
Less Inventory Dec. 31,		9000		
		41800		
Gross Profit,		23200		
		$65000		$65000

The Manufacturing Account

The first section of the Profit and Loss account in a manufacturing business is generally termed the Manufacturing account, which may be kept merely for the purpose of ascertaining the actual cost of the goods manufactured, or if desired, to show the profit on manufacturing, as distinguished from the profit on trading. By the first method the Manufacturing account includes on its debit side all items entering into the cost of the goods manufactured, and on its credit side the manufacturing inventory, which consists of raw material and goods in process of manufacture. The difference between the two sides constitutes the manufacturing cost of the output and is carried to the debit side of the Trading account, as shown below in the illustration (Form 4), compiled from the transactions here given.

Summary of Transactions

Inventories Jan. 1, 1908:		
Raw Material,	$2300	
Unfinished Goods,	400	
Finished Goods,	4500	$7200

Purchases:		
Raw Material,	6000	
Finished Goods,	3000	9000
Freight and Duty:		
On Raw Material,	1800	
On Finished Goods,	900	2700
Wages,		4000
Factory Expenses,		400
Inventories Dec. 31, 1908:		
Raw Material,	2500	
Unfinished Goods,	800	
Finished Goods,	5600	8900

(Form 4)

Dr. MANUFACTURING ACCOUNT *Cr.*

Inventory Jan. 1, 1908:			Inventory Dec. 31, 1908:		
Raw Material,	$2300		Raw Material,	$2500	
Unfinished Goods,	400	$2700	Unfinished Goods,	800	$3300
Purchase of Raw Material,	6000		Cost of Goods Manufactured transferred to Trading Account,		11600
Freight and Duty,	1800	7800			$14900
Wages,		4000			
Factory Expense,		400			
		$14900			

(Form 5)

Dr. TRADING ACCOUNT *Cr.*

Inventory of Finished Goods Jan. 1, 1908,		$4500	Sales for year,	$18000
Manufacturing Acct., cost of goods manufactured during the year,		11600		
Purchases of Finished Goods,	$3000			
Freight and Duty,	900	3900		
		20000		
Deduct Inventory of Finished Goods Dec. 31, 1908,		5600		
		14400		
Gross Profit transferred to Profit and Loss Account,		3600		
		$18000		$18000

In the illustration (Forms 4 and 5) the manufactured goods are turned over to the selling department at the net cost of manufacturing same, therefore the entire profits are shown in the trading section. If the manufacturer desired to separate the manufacturing profit from his trading profit, he would charge the Trading account the same price for goods manufactured by himself as would have been charged if the goods had been bought elsewhere. Assuming, for the purpose of illustration, that the goods shown in the foregoing Manufacturing account have been transferred to the Trading account at a trade price of \$13340, instead of an actual cost of \$11600, there would have been a manufacturing profit of \$1740, but the trading profit would have been reduced by exactly the same amount and would have shown a trading profit of \$1860, instead of \$3600. Both of these profits being afterwards transferred to the Profit and Loss account would bring about the same final result as if the manufacturing profit had not been considered separately at all. In order that the distinction between these two methods may be readily understood, the Manufacturing and Trading accounts for the same transactions are here shown (Forms 6 and 7) in the manner just described.

(Form 6)

Dr. MANUFACTURING ACCOUNT *Cr.*

Inventory Jan. 1, 1908:			Output Charged to Trading Account,	\$13340
Raw Material,	\$2300			
Unfinished Goods,	400	\$2700		
Purchase of Raw Material,	6000			
Freight and Duty,	1800	7800		
Wages,		4000		
Factory Expenses,		400		
		14900		
Deduct Inventory Dec. 31, 1908:				
Raw Material,	2500			
Unfinished Goods,	800	3300		
Manufacturing Cost,		11600		
Manufacturing Profit carried to Profit and Loss,		1740		
		\$13340		\$13340

(Form 7)

TRADING ACCOUNT

Dr.				Cr.
Inventory Finished Goods Jan. 1, 1908,		$4500	Sales for Year,	$ 18000
Output from Factory for Year,		13340		
Purchases of Finished Goods,	$ 3000			
Freight and Duty,	900	3900		
		$21740		
Deduct Inventory Manufactured Goods on Hand Dec. 31, 1908,		5600		
		$ 16140		
Trading Gross Profit carried to Profit and Loss Account,		$ 1860		
		$ 18000		$ 18000

After the manufacturing and trading profits have been transferred to the credit side of the Profit and Loss account, it is then debited with the remaining expenditure items and credited with the additional income items; the difference between the two sides, as it now stands, will show a net profit or loss for the year. It is sometimes advisable to divide even this portion of the Profit and Loss account into sections, as, for instance, when there are special profits or losses arising from investments outside the business proper, interest on capital, or a profit and loss balance from a previous year. The profit or loss arising from the legitimate business of the concern during the business covered by the statement should be distinctly shown in any event; if any other profits or losses are to be incorporated, this should be done in a separate section of the statement. The illustration on the following page (Form 8) shows the application of this principle.

The second section of this illustration is the same as the Undivided Profits account used by so many bookkeepers. The undivided Profits account is usually opened on a page by itself, and all adjustments of profits, dividends, etc., made through it.

(Form 8)

PROFIT AND LOSS ACCOUNT

Dr.			*Cr.*
Rent,	$ 1000	Manufacturing Profit from Manufacturing Account,	$ 5000
Salaries,	3000	Gross Profit from Trading Account,	9000
Insurance,	200	Discounts on Purchases,	700
Advertising,	1200		
General Expense,	800		
Discounts on Sales,	900		
	$7100		
Net Profit for Year carried down,	7600		
	$ 14700		$ 14700
Dividend No. 9, 6%,	$ 6000	Net Profit for Year brought down,	$ 7600
Surplus,	2500	Surplus Profits from Last Year,	2000
Balance carried forward to Next Year,	1100		
	$ 9600		$ 9600

The unapportioned balance of the net profit, as shown above, is sometimes carried below on the credit side. Another method would be to carry it to the credit side of Undivided Profits account (since that is really what it is), or even to the Surplus account.

If the foregoing had been the profit and loss of a partnership business instead of a company, the last portion of the account would have been modified to suit the conditions as follows : —

Interest on Capital:			Balance brought down,	$ 7600
A. Brown,	$ 300		Surplus Profits from Last Year,	2000
C. Davis,	400	$ 700		
Balance of Net Profits:				
A. Brown, 3/5,	$ 5340			
C. Davis, 2/5,	3500	8900		
		$ 9600		$ 9600

The allocation of different items of cost between the Manufacturing and Trading and Profit and Loss accounts is not clearly defined in all cases, since accountants do not always agree in the matter, and the circumstances in each case must be

considered in order to make the proper disposition of charges. For example, discounts on sales or purchases, depreciation, rent, insurance, bad debts, etc., are some of the items that cause dispute. The student, however, must use his best judgment at all times, and be governed by the conditions underlying the matter.

Departmental Trading Accounts

The enormous development of recent years of the departmental principle as applied to mercantile establishments has made the question of departmental accounting a most important one. It is not sufficient to know whether the business as a whole is paying or not; the accountant must be able to show from his books how each department stands, whether it is making money or losing it. To do this, he must treat each department, as far as possible, as a separate business and prepare his accounts accordingly. In compiling his annual statement, instead of showing one Trading account he will have one for each department, all of which will be closed into the same general Profit and Loss account. The Departmental Trading account differs materially from those we have already considered, owing to the fact that it is charged, not only with the cost of the goods handled, but also with the entire expense of running the department both direct and indirect. It is not always easy to determine the best method of apportioning indirect charges against the department; each department has to adopt the plan best suited to its particular conditions. Take the item of rent, for instance; this may be divided in proportion to the floor space occupied by the different departments, the relative value of the floor space, the value of the stock carried, or the sales. The first or second method would seem to be most suitable. The salaries paid to the clerks of the various departments are a direct charge; but the cost of management, advertising, delivery of goods, etc., would probably be apportioned according to the sales. These, however, are matters for the directors or managers of the concern to decide, although the opinion of the accountant would doubtless be accepted in most cases.

For each department a separate Trading account similar to the following (Form 9) would be made out:

(Form 9)

TRADING ACCOUNT, DRESS GOODS DEPARTMENT

Dr.				*Cr.*
Inventory Jan. 1,		$30000	Sales,	$100000
Purchases,	$60,000			
Freight & Duty,	9,600	69600		
		$99600		
Deduct inventory Dec. 31,		25000		
		$74600		
Gross Profit carried down,		25400		
		$100000		$100000
Salaries,		$5000	Gross Profit brought down,	$25400
Department Expenses,		1000		
Proportion of Rent,		3000		
Proportion of General Expenses,		2500		
		$11500		
Net Profit of Department carried down to Profit and Loss Account,		13900		
		$25400		$25400

Balance Sheet

A Balance Sheet is a statement of the Assets and Liabilities of a business, arranged in such a way as to show clearly the financial position of the concern at a particular time. The Assets (Resources) are placed on the left-hand side (first page), and the Liabilities on the right (second page). If the Assets exceed the Liabilities, the difference is the Net Capital or Surplus, and is put on the liability side; but if the Liabilities are the greater, the difference is the Net Deficit (Capital Impairment) of the concern and is placed on the asset side. This being done, the two sides of the statement will agree, thus forming a complete Balance Sheet. In the Balance Sheet of a corporation the Paid-up Capital is included among the Liabilities and is generally mentioned first, the statement being completed by entering the Net Profit on the Liability side or the Net Loss on the

Asset side. The excess of Assets over Liabilities and Capital shows the Surplus or amount of profits remaining undivided.

In preparing the Balance Sheet the accounts or items should be grouped or displayed in such a manner as to convey the fullest information possible. For instance, the Current Assets and Fixed Assets should be separated into groups, or a further division made if thought desirable. In like manner the Liabilities may be divided, as between Current, Fixed, Reserves, etc. In compiling the Balance Sheet from the Ledger accounts it is best to follow the order of availability for the satisfaction of liabilities in the event of liquidation. In like manner the Liabilities may be entered in the order of priority of their claims against the concern. In following this plan it would be necessary to place the Current Assets first, beginning with Cash and ending with Plant and Machinery. On the Credit side list the Current Liabilities first, beginning with Bills Payable, and followed with the Fixed, and end with the Capital Stock or Capital of Partners. Many accountants begin with the Fixed Assets and Liabilities, respectively, and end with the Current, but the plan of arrangement varies so much that the bookkeeper is at liberty to follow his own inclinations.

Instead of following the above form or placing Assets on the left-hand side and Liabilities on the right, accountants frequently show a different method of arrangement. A very acceptable form consists of placing the Assets at the top of the page and the Liabilities at the bottom, showing the total Liabilities deducted from the total Resources, the balance being the Net Capital of the concern. As the Balance Sheet can be better understood by studying from illustrations, the forms included herewith are given for that purpose. In the first illustration it will be noted that Depreciations and Reserves for Bad Debts are deducted from the Assets to which they apply, while the Surplus account consisting of undistributed profits appears on the Liability side. The illustrations which follow show the method of preparing complete annual statements consisting of Manufacturing and Trading account, Profit and Loss account, and Balance Sheet.

BALANCE SHEET, DEC. 31, 1909

Assets			*Liabilities*		
Factory Premises,		$50000	Capital:		
Plant and Machinery,	$65000		1600 shares fully paid,		$160000
Less 7½% depreciation,	4875	$60125	Creditors:		
Patent Rights,		3000	On Open Account,	$12000	
Stock in Trade,		3900	On Bills Payable,	15000	27000
Debtors:			Surplus Account,		10000
On Open Account,	$6000		Profit and Loss Account,		19125
On Bills Receivable,	40000				
	$46000				
Less Provision for Bad Debts,	1500				
		44500			
Cash in bank,		19500			
		$216125			$216125

Practical Problem

The following problem is adapted from a New York C. P. A. examination and is a fair sample of the kind of work that the accountant is called upon to do. The information given in it is very meager, however, as compared with the great supply of details that are to be found in an actual set of books.

In a genuine case the accountant has access to all accounts, books, securities, agreements, etc., owned by the concern under consideration, and he can therefore verify inventories, list properties on hand, and make a personal inspection of details.

In preparing Revenue and Financial Statements the young accountant must keep constantly before him the fact that they are made to show results, and therefore should be arranged in the simplest manner possible without sacrificing clearness. There being no set rule to follow, the accountant is at liberty to follow the arrangement best suited to his individual needs.

It is the practice of accountants to make use of working sheets, of six to twenty or more columns, for the purpose of analyzing the various accounts and for separating the items therein into the columns under their several classifications.

Problem. — The following is the Trial Balance of the Arlington Manufacturing Co. at the close of business Dec. 31, 1909, the end of the second fiscal year of the company's operations:

Cash,	$25324	
Land,	100000	
Buildings,	200000	
Machinery,	300000	
Tools and Implements,	40430	
Horses, Wagons and Harness,	30000	
Office Furniture,	5201	
Bills Receivable,	25812	
Accounts Receivable,	163374	
Investments,	20000	
Salesmen's Accounts, Advances on Salaries,	1960	
Organization Expenses $15000, less 2 %,	14700	
Goodwill,	200000	
Bills Payable,		$42000
Accounts Payable,		98511
Special Accounts, Officers and Clerks,		15363
Reserve for Bad Debts — less Accounts written off,		112
Reserve for Depreciation — Buildings 2½ %,		5000
Reserve for Depreciation — Machinery 6 %,		18000
Reserve for Depreciation — Horses, Wagons, etc., 10 %,		3000
Capital Stock, 10000 shares @ $100,		1000000
Sales, less Returns and Allowances,		1240600
Rent of part of business premises,		500
Inventory Dec. 31, 1908,	104621	
Purchases, including Freight and Cartage,	395662	
Labor — Factory Payrolls,	600400	
Salaries of Officers, Clerical Force,	75120	
Carried forward,	$2302604	$2423086

Brought forward,	$2302604	$2423086
Salaries of Salesmen,	60440	
Advertising,	50300	
Taxes,	4020	
Insurance,	2600	
Interest and Discount,	6500	
Expenses, Stable,	4000	
Expenses, Office, Legal, and Unclassified,	25750	
Maintenance — Repairs, Buildings, etc.	26942	
Profit and Loss, 1908 Surplus,		60070
	$2483156	$2483156

Inventories Dec. 31, 1909:

Merchandise, Finished and Unfinished,	$290000
Factory Payrolls, accrued but not paid,	5750
Unexpired Insurance,	912
Interest accrued on Investments,	1000

From the foregoing trial balance and notations prepare a Manfacturing and Trading account, Profit and Loss account, and Balance Sheet as at Dec. 31, 1909. Make the same reserves for depreciation as were made at the end of the preceding year. Write off 10% from balance of organization expenses. Allow 2% of bills and accounts receivable as a provision against possible losses. Show the per cent of Gross Profit and Net Profit. Show as a final balance at the credit of Undivided Profits account the profits available for distribution.

Problems like the above are given in examinations, as a means of testing the ability of candidates in their knowledge of accounts and in the preparation of statements, and since only about one hour is given for answering this question it will be seen that one must have a thorough knowledge of the work in order to secure a passing grade. Indeed the C. P. A. examinations of the various states are of a high order, and such as to tax the ability of the young accountant to the utmost, while in some cases even experienced accountants find themselves hardly able to complete the required questions within the time limit.

ARLINGTON MANUFACTURING COMPANY

Manufacturing and Trading Account, Dec. 31, 1909

Casts			Sales	
Inventory Jan. 1, 1909,		$104621	Sales, less Returns and Allowances,	$1240600
Purchases and Freight,		395662		
Labor,		606150		
		1106433		
Less Inventory 12-31-09,		270560		
First Cost,		835873		
Manufacturing and Selling Charges:				
Maintenance—Bldgs. and Machinery,	$26942			
Taxes,	4020			
Insurance, $2600				
Less Unexpired, 912	1688			
Depreciation of:				
Buildings 2½%,	5000			
Machinery 6%,	18000			
Horses and Wagons 10%,	3000	58650		
Stable Expenses,		4000		
Salaries, Salesmen,		60440		
Cost of Sales,		958963		
Gross Profit carried to Profit and Loss Account,		281637		
		$1240600		$1240600

Profit and Loss Account, Dec. 31, 1909

Debits		Credits	
General Expenses:		Gross Profit for Trading Account:	$281637
Salaries — Office,	75120	Rent of Part of Premises,	500
Advertising,	50300	Interest accrued on Investments,	1000
Interest and Discount,	6500		
Expenses, Office and Legal,	25750		
Reserve for Bad Debts 2%,	3784		
Organization Expenses 10%,	1470		
Total Expenses,	162924		
Net Profit carried down,	120213		
	283137		283137
Balance of Profits, available for Dividends,	180283	Net Profit brought down,	120213
		Surplus Profit from 1908,	60070
	$180283		$180283

ARLINGTON MANUFACTURING COMPANY

Balance Sheet, Dec. 31, 1909

Assets		
Current Assets:		
Cash on hand,		$25324
Bills Receivable,	$25812	
Accounts "	163374	189186
Merchandise, finished and unfinished,		270560
Investments,		20000
Interest accrued,		1000
Salesmen — advances,		1960
Total current assets,		508030
Fixed Assets:		
Land,	100000	
Buildings,	200000	
Machinery,	300000	
Tools and Implements,	40430	
Horses, Wagons, etc.,	30000	
Office furniture,	5201	
Total Fixed Assets,		675631
Goodwill,		200000
Insurance unexpired,		912
Organization Exp.,	14700	
Less 10%,	1470	13230
		$ 1397803

Liabilities		
Current Liabilities:		
Bills payable,	$42000	
Accts. "	98511	$140511
Special Accts.:		
Office and clerks,		15363
Wages accrued, factory payroll,		5750
Total Current Liabilities,		161624
Reserve Accounts:		
For Bad Debts,	3896	
Depr. of Bldg.,	10000	
" " Mchy.,	36000	
" " Horses and Wagons,	6000	55896
Total Liabilities,		217520
Capital Stock,		1000000
Undivided Profits,		180283
		$ 1397803

Comparative Percentage Statement

	Based on Sales			Based on Turnover		
	1909	1908	Increase (black) Decrease (red)	1909	1908	Increase Decrease
Gross Profit,	22.7	19.8	2.9	29 4		
Net Profit,	9 7	8.5	1.2	12.5		
Labor, $ 606,150.00,	48.8	36.4	2.4	63.2		
Expenses, $ 162,924.00,	13.13	11.43	1.7	17.0		

The above are taken to the nearest decimal of one place and illustrate the method of determining percentages. The "Turnover" means the cost of goods sold, $958963.00, but since the exact cost of goods manufactured is so hard to determine, the Sales are frequently used as a basis for percentage exhibits. Comparative statements are usually varied to meet the requirements of the management, and in some cases contain a considerable amount of information pertaining to the business of the current month and year as compared with last year.

EXERCISE 40

Errors and Trial Balances

1. Under what conditions may the necessity of taking a Trial Balance in double entry books be dispensed with?

2. Given, the Trial Balances of two different sets of books; one shows a *debit* excess of $2.37, and the other a *credit* excess of $367.23. Which involves the greater number of errors, or should receive attention first?

Keep in mind that a small difference may be the outcome of several errors which may, when combined, offset one another.

3. In case there are 500 accounts with customers, how may the books be arranged so that the bookkeeper may take off a Trial Balance each month in at least one hour?

4. The following errors are found in a set of books: omitted to charge Smith from the Sales Book with $132; neglected to record a bill for repairing received from A. Brown, $35; posted interest, $13.80, which was allowed to a customer, to the wrong side of Interest account; neglected to bring down the inventory of $212.50, consisting of unexpired insurance, in the Expense account; in carrying forward a balance of $250, of Bills Receivable, it was placed on the wrong side of the account; posted a purchase of $84.60 to the wrong side of King's account; a shortage of cash, $3.80, was recorded in the Cash Book, but posted to the wrong side of Over and Short account; a payment to Lark of $85 was placed on the wrong side of the Cash Book and credited to his account; a rebate of $216, received

from Hall, was correctly journalized, but posted as $2.16 to the wrong side of Discount account. Which side of the Ledger is the larger, and how much? How should each error be corrected?

5. In case a General Ledger is kept, as well as Separate Ledgers for Customers and Creditors, how should the Trial Balance be taken off each ledger? What accounts should each Trial Balance contain?

6. Referring to (the above question, make a trial balance from the Creditors' Ledger, which shows the following balances:

A, $980.40; B, $216.38; C, $87.12; D, $138.19; E, $784.01; F, $8.22; G, nothing; H, $476.76; I, nothing; J, $18.75.

7. Referring to the two preceding questions, prepare a Trial Balance of the General Ledger showing at least twelve accounts.

8. You took charge of a set of books for a firm of two partners on Feb. 1, one month after the financial statements were made, and upon investigation found that the following errors existed at the time of closing: The merchandise was overvalued, $1000; a wagon which had been purchased for $245 and charged up to Expense account was omitted from the inventory; a bad account of $165 was carried over as good; no allowance was made for unexpired insurance, $28.70, prepaid taxes, $39.40, interest accrued on a mortgage receivable, $90; sundry expense bills aggregating $72.35 were not considered; salaries due to partners, $400, were not allowed. How should the books be adjusted so as to exhibit a true condition of the firm on Jan. 1? Show how each of the above should be adjusted, and present an amended statement of resources and liabilities.

9. Explain the system of Reverse Checking or Proof Posting, the system of Odd and Even Page Posting, and the 9 or 11 Check Proof system.

10. Make a Trial Balance from the following accounts: Jas. Brown, Capital, $2000; Private account, $640; Loan to the business, $1000; Store and Lot, $5000; Mortgage outstanding, $2000; Loan to A. Wilson, $250, for which $300 worth of security has been received; Bank account, $875.20;

Cash account, $141.80; Office furniture, $450; Merchandise inventory at beginning of year, $3400; Purchases, $6450; Sales, $15418; Return sales, $150; Return purchases, $236; Freight, $361; Expense, $1469; Labor and salaries, $3640; Interest and discount allowed by us, $233, allowed to us, $119; Notes in safe, $2100; Notes and acceptances outstanding, $1709; Rent, part of warehouse, $442; Book accounts, $4450; Petty accounts, $340; Sundry creditors, $6945. Is the Trial Balance correct? If not, how much is it out? If there is an error, try to discover the reason for it by applying the usual tests, and state where it is.

Answer. There is an error on the credit side, caused by a transposition of figures.

11. (*a*) Give illustrations of errors caused by transposition and transplacement of figures, and show how you would proceed to locate the amounts wrongly entered. (*b*) Why is the error caused by either transposed or transplaced figures always divisible by 9?

12. Can a Trial Balance be made from a set of single entry books? If so, explain how you would proceed to do so.

It may be made by supplying the contra entries to all amounts involved.

13. State the effect, both on the business and on the Trial Balance, of each of the following errors: a clerk accepted a counterfeit $10 bill; you entered $164.80 in the wrong column of a columnar Sales Book; received $22.35, but placed it in the wrong column of the Cash Book; neglected to enter up a note of $116.00 which the bank gave notice of having charged to your account; credited A with B's check for $25, and received the same day payment from A in full of account, $86.50, which should have been $111.50; a *debit* entry of $138.40 posted from the Journal to the Credit Ledger instead of to the Debit Ledger; neglected to consider contingent liabilities that are outstanding.

14. A desires to purchase a going concern having the following assets:

Machinery,	$80000.00
Book Accounts Receivable,	48000.00
Inventory Merchandise,	42000.00

and the following liabilities:

Book Accounts Payable,	$30000.00
Bills Payable,	30000.00

The purchase price agreed upon was $100000.00 in cash.

It was discovered immediately after the taking over of the concern that a clerical error was made in taking stock, and that the actual value of the stock turned over was but $39500.00.

It was also discovered that $3800.00 of the Accounts Receivable were valueless, as the bookkeeper had neglected to make proper credits for discounts allowed.

Give opening entries for new books, taking into consideration the above errors. Show the Balance Sheet after the adjustments are made. Give the opening entries in case the same books are used.

EXERCISE 41

Branch Store Accounts

1. You have a branch store at Scranton under the management of A. J. Cannon, and have shipped to it during the year merchandise valued at $12230.60. You have also paid freight on goods shipped, $162.15, and other expenses amounting to $328.40. The manager's report shows sales for the year, $14165.35, and stock on hand, $2375. His remittances have amounted to $14110, and the balance has been used for petty expenses. His salary of $1200 has been paid by monthly checks from the Head Office. Show the Branch Store account as it would appear in the head office Ledger after being closed at the end of the year.

The student will get a better insight into the transactions by making Journal entries for the amounts given.

2. JAN. 1. The Boston Yeast Co. sent to its Chicago Branch merchandise invoiced at $1000, and cash, $300.

FEB. 1. Merchandise valued at $2300 was sent to the Branch, and a remittance of $500 cash was received from it.

MAR. 1. Merchandise valued at $1500 was sent to the Branch, and a cash remittance of $1200 received from it.

MAR. 31. The Branch sent Head Office a report for the quarter ending this date, from which the following particulars are taken:

Stock on Hand,	$2500
Cash on Hand,	200
Accounts Receivable,	1300
Total Sales,	2900

Show the Journal entries on the books of the Head Office for each month, and after receiving the quarterly report. Show the Branch account as it should appear in the Head Office Ledger, and the amount of gain or loss in the undertaking.

3. Referring to the preceding question, show the Journal entries for the above transactions as they would appear on the books of the Branch. Show the Head Office account as it should appear in the Branch Ledger.

4. The Philadelphia Bread Co. has a branch in Harrisburg, to which place it ships bread and pastry daily. The Branch sells both wholesale and retail. Except for the retail sales, all collections are made from Head Office, and daily reports and remittances are made by the Branch manager, less petty expenses.

Business for the month shows as follows:

Bread and Supplies Shipped,	$1140.00
Freight,	65.00
Salary of Manager,	90.00
Expenses at the Branch,	16.40
Rent, etc.,	120.00
Cash Sales,	235.25
Sales to Customers,	1044.60
Collections from Customers,	875.20
Bread and Supplies on Hand at Branch,	145.65

Make Journal entries for the above as they should appear on the books. Show the Branch account as it should appear in the Ledger, and rule it up to show gain or loss for the month.

5. Geo. Bennett places you in charge of a branch store with goods valued at $2150, and cash, $75. You are to receive a salary of $40 per month for a year, and 10 % on

the gross profits. During the year you paid expenses, $210. Your purchases were $21000, and sales $24000. At the end of the year there were accounts receivable, $400; and merchandise on hand, $2000.

(*a*) Make a statement showing Bennett's net gain and the balance of cash due him, providing he takes over the accounts receivable and the merchandise on hand.

Use whatever form of statement will be most easily understood by the owner of the business. Indeed, this plan should be followed in all work, whether on the books or in preparing financial statements.

6. JAN. 1. Wm. Mackey placed David Lee in charge of a branch store with the following Resources and Liabilities: Goods in stock, $3748.25; Cash on deposit, $176.80; Book debts, $392.47; Bills receivable, $168.29; Furniture and Fixtures, $72.54; Accounts payable, $246.85; Bills payable, $147.62; Interest accrued on same, $7.24; Rent of store paid three months in advance, $27.50 per month; Lee is to receive a salary of $75 per month.

On Dec. 31 the books show: Purchases, $5638.74; Returned Purchases, $127.54; Sales, 7724.92; Returned Sales, $214.67; Goods on hand, $4247.38; Office Furniture bought, $27.40; Notes on hand, $136.18; Book debts, $475.22; Notes outstanding, $368.44; Accounts payable, $229.68; Interest paid, $14.65; Interest accrued but unpaid, $4.27; Paid for rent during the year, $165; Sundry expenses paid, $62.50; Lee's salary paid for ten months, $750; Remitted to Mr. Mackey, $250; Office Furniture and Fixtures now valued at $87.69.

Make statements showing:

(*a*) Balance of cash on hand.
(*b*) Losses and gains for the year.
(*c*) Assets and liabilities at the end of the year.

In this and the following problem a Trial Balance should be made first.

7. An Eastern company has a branch at Denver. At the end of the first year's business the books stand as follows:

Denver Branch: Cash on hand and in bank, $254; Accounts due from customers, $940; Purchases, $8110; Sales, $7480;

Expenses, $1150; Accounts payable, $460; Furniture, $400; Head Office, $2914.

Head Office Books: Cash in bank, $646; Accounts receivable, $3750; Bills receivable, $2968; Denver Branch, $2914; Purchases, $12675; Expenses, $3850; Accounts payable, $4873; Bills payable, $3752; Sales, $10378; Capital paid up, $10000; Furniture, $2200. Inventory: Merchandise at head office, $7590; at Denver, $2677. Furniture has depreciated 10 % in value. Allow 5 % of accounts receivable as a reserve for bad debts.

Prepare a Profit and Loss Statement and a Statement of Assets and Liabilities, to be presented to the stockholders.

EXERCISE 42

Preparing Financial Statements

Trading, Profit and Loss Statements, and Balance Sheet

In preparing financial statements it is best to make them in the simplest and plainest way possible, so long as they show the desired information. Sometimes the statements are prepared in the same form as a ledger account, with the difference entered in red ink on the smaller side; but with many accountants the practice is to show, first, the side of the account which may be the larger, and from that deduct the smaller. The difference will show the gain or loss, or the capital, as the case may be.

1. From the following information, which shows a year's business, prepare:

(*a*) Trial Balance;

(*b*) Trading and Profit and Loss Statements;

(*c*) Balance Sheet.

Plant, $85000; Salaries, $8000; Goods on hand at the beginning of year, $36000; Discount on purchases, $500; Bank charges, $725; Freight on purchases, $1250; Creditors, $28000; Stable maintenance, $350; Rents (of sublet premises), $1000; Discount on sales, $1500; Labor, $39150; Bills Payable, $8250; Sales (less returns), $175082; Traveling Expenses, $2600; Rent of warehouse, $3000; Purchases, $90000; Debtors, $20000;

Expenses, $8100; Insurance (used, $1310), $1810; Bills Receivable, $6200; Cash on hand, $547; W. J. Thompson (Capital), $60000; Wm. Mackey (Capital), $31400; Goods on hand at end of year, $15000. Show the per cent of gross gain on the merchandise sold; also the per cent of net gain.

2. From the following data make Trading Statement, Profit and Loss:

Statement and Balance Sheet for the year ending Dec. 31, 1908:

G. Brown (Capital), $20000; L. Jones (Capital), $30000; Cash on hand, $2200; Notes on hand, $8000; Notes payable (outstanding), $6000; Accounts Receivable, $12000; Accounts Payable, $10000; Goods on hand Dec. 31, last year, $9000; Purchases, $89000; Sales, $80000; Wages, $4000; Brown's private account (Dr.), $2000; Jones' private account (Dr.), $3000; Expense account, $1200; Rent, $1200; Interest paid, $600; Machinery (cost), $13800; Goods on hand at this date, $40000; Interest accrued on notes payable, $400. Provide for a possible loss of 10 % on accounts receivable. Allow five per cent interest on Capital accounts. Allow Brown $1500 and Jones $1800, salaries for the past year, the amounts to be placed to their credit. They share net profits, Brown $\frac{1}{3}$ and Jones $\frac{2}{3}$. Show the per cent of gross gain and of net gain; also the per cent of net gain on investment.

It is always best to take off a trial balance before preparing the statements.

3. Prepare Trading Statement, Profit and Loss Statement, and Statement of Assets and Liabilities from the following data as on Dec. 31, 1908:

Merchandise inventory, Jan. 1, 1907, $2000; Trade expenses, $3000; Wages, $7218; Cash on hand, $62; Cash in Bank, $15018; Salaries, $1050; Rent, $870; Purchases, $49509; Purchases returns, $100; Sales, $71780; Sales returns, $624; Commission paid, $465; Discounts on purchases, $120, and on sales, $105; Machinery and tools, cost $6300, but now considered worth only $5600; Balance to surplus account from last year, $240; Office furniture, cost $627, depreciated 10 %; Book debts receivable, $6527, and Bills receivable, $10000; on both of which provide for a possible loss of 5 %; Creditors

on Notes payable, $12700, and on Open account, $35. Provide for accrued Wages unpaid, $195; and current Advertising, $109. The Paid-up Capital of the Company is $25400. Show the rate per cent of gross gain and net gain. Inventory at end of year, $10000.

4. The Trial Balance of a manufacturing firm taken Jan. 1, 19— is as follows:

Capital, A,		$35000.00
Capital, B,		25000.00
Plant and Machinery,	$35000.00	
Purchases,	38000.00	
Sales,		95000.00
Stock on hand, January 1, 1907,	15000.00	
Labor,	24000.00	
Salaries,	6000.00	
Traveling Expenses,	2500.00	
Interest,	600.00	
Stationery and Printing,	1200.00	
Rents and Taxes,	3500.00	
Discounts and Allowances,	1250.00	
Fuel,	3000.00	
Insurance (one year from July 1, 1907),	1150.00	
Freight,	1500.00	
General Expense,	600.00	
Bank Overdraft (secured),		5000.00
Creditors,		4000.00
Accounts Receivable,	25000.00	
Rent of Steam Power,		1500.00
Cash on Hand,	200.00	
Loan Account,	7000.00	
	$165500.00	$165500.00

Stock on hand January 1, 19—, $ 23000; each partner to be credited 6% on his capital for one year before profits are ascertained; 3% to be written off book debts for probable losses; 10% to be written off Machinery and Plant for depreciation; unexpired insurance to be taken into account; net profit to be

divided $\frac{7}{8}$ to A, $\frac{1}{8}$ to B. Draft Journal entries for closing the the books, and prepare final balance sheet with profit and loss account and trading account.

EXERCISE 43

Consolidation of Business Firms

Make entries for the following propositions:

1. L. M. Coffin and B. R. King are carrying on business separately, but have agreed to form a partnership under the name of Coffin & King. Each shall turn over his entire resources and liabilities to the new firm, which has agreed to accept the same and to pay all outstanding liabilities.

L. M. Coffin's Statement. Resources: Cash, $650; Merchandise, $3100; Furniture, $800; Bills Receivable, $740; Accounts Receivable, $685. Liabilities: Bills Payable, $1500; Accounts Payable, $475.

B. R. King's Statement. Resources: Cash, $325; Merchandise, $2650; Furniture, $1050; Bills Receivable, $450; Accounts Receivable, $890. Liabilities: Bills Payable, $900; Accounts Payable, $765.

It is agreed that each partner is to pay into the business enough cash to bring his capital up to $5000. An entirely new set of books is to be opened. Make the opening Journal entries and show the accounts opened in the new ledger. Take off a trial balance of the new ledger. Show the closing entries on the private books of Coffin and King respectively.

Where the accounts receivable and payable are shown, separate the amounts into two or more individual accounts.

2. Barnes Brothers have been conducting a flour mill, and Hindley & Brown a general merchandise store. They have agreed to combine the two firms under the name of Barnes, Hindley, & Co., and have executed articles of agreement to that effect. All of the resources and liabilities of the two firms are to be turned over to the new firm, which is to conduct both mill and store as heretofore.

The accounts of Barnes Brothers are as follows:

Resources

Mill and Ground,	$20000
Machinery and Equipment,	5600
Grain in Mill,	570
Bran and Feed,	500
Flour,	1250
Cash in Bank,	1320
Notes on Hand,	2200
Interest accrued on Notes,	120
Accounts Receivable (per schedule),	3250
	$34810

Liabilities

J. R. Barnes, Capital,	$10000
F. W. Barnes, Capital,	10000
Mortgage on Mill Property,	6500
Interest accrued on Mortgage,	150
Notes Outstanding,	2500
Personal Accounts Outstanding (per schedule),	5660
	$34810

The accounts of Hindley & Brown are as follows:

Resources

Store and Warehouse,	$18000
Furniture and Fixtures,	4800
Horses, Wagons, and Harness,	1420
Stable Supplies,	220
Merchandise on Hand,	15550
Accounts Receivable (per schedule),	4610
Notes on Hand,	480
Cash on Hand and in Bank,	2130
Edward Hindley, Private Account,	970
Alfred Brown, Private Account,	730
	$48910

Liabilities

Edward Hindley, Capital,	$20000
Alfred Brown, Capital,	15000
Notes Outstanding,	5140
Personal Accounts Outstanding (per schedule),	8490
Salaries due and unpaid,	280
	$48910

It is agreed that the partners in the new firm shall share gains and losses in proportion to investment, and that each shall draw a salary of $2500 per year. Hindley and Brown are to settle their respective accounts soon.

Make the opening entries for the consolidation of the two firms, providing a new set of books is to be used. Plan the new ledger and open all of the necessary accounts therein, after which take off a trial balance.

Make the closing entries for each of the old firms.

3. B has an established business and A proposes to enter into partnership with him by turning over his business, which shows a net capital of $2000. They agree that B is to have $\frac{2}{3}$ and A $\frac{1}{3}$ of the profits, and that the capital of each is to bear the same proportion.

A brings in cash, $1800; Notes receivable, $500; Accounts receivable, $950; Notes outstanding, $1100. The accounts receivable are valued at $800 by the new firm.

B owns the right to a valuable patent, and his other assets as taken from the books are: Cash, $400; Accounts receivable, $1600; Merchandise, $1240; Notes receivable, $840; Furniture, $160; Accounts owing are $750, and Notes, $250. The accounts receivable are taken over at a discount of 15%, and merchandise at a discount of $200.

Prepare a combined Balance Sheet (assets and liabilities) showing the position of the partners. B states that he will not invest any more cash, and that his patent right is sufficient to make up his required investment.

Show entries for opening the new Ledger.

EXERCISE 44

Opening Corporation Books

Make Journal entries for each of the following transactions:

1. A corporation is organized with a Capital Stock of $50000, the entire amount of which is purchased and paid for by A, B, C, and D.

In some states only three persons are required to form a corporation, while in otheis five are required.

2. A corporation is formed with a Capital Stock of $50000. The entire capital is subscribed for, and one half paid in cash, by Gray, Green, Black, White, and Brown, $\frac{1}{5}$ each.

3. A corporation is formed with a Capital Stock of $100,000, shares $100 each. One half of the capital is subscribed for as follows: J. Long, 200 shares; A. B. Little, 200 shares; R. T. Short, 100 shares. Each subscriber has paid in one half of his subscription, and the balance is to be paid in two installments. The remainder of the stock is to be held for future sale when funds are needed.

4. The Jonathan Smart Manufacturing Company is incorporated with an authorized capital of $200000 Common Stock, and $50000 7% Preferred Stock. One half of the Preferred is subscribed for and paid in full. One half of the Common is subscribed for and 50% paid; the balance is to be paid in four monthly installments.

Give entries also for each of the monthly installments.

5. Referring to the above question, the remaining Preferred Stock is subscribed for and 50% paid; and half of the remaining Common Stock has been subscribed for, less 10% discount. One half is paid down and the balance is to be paid in three months.

Five months later, owing to the success of the business, the remaining stock was sold at a premium of 10%, payable one half down and one half in one month.

6. A corporation has been formed with an authorized Capital Stock of $150000, one third of which is 8% Cumulative Preferred Stock. The entire issue of Preferred is subscribed for at par and 50% paid up. When the balance is paid, one share of Common is to be given as a bonus with every five shares of Preferred. The Promoter of the Company is given $5000 in Common Stock for services rendered in organizing, and $500 is given to another of the organizers for services rendered. $50000 of the Common Stock has been subscribed for at par, to be paid for in five equal monthly installments. The remaining stock is to be held for future sale. The balance has been

paid on the Preferred Stock, and three installments on the Common. Give all of the entries.

7. Referring to the above question, Frank Robinson, who subscribed for \$3000 of Common Stock and has paid three installments, is unable to continue his payments. The stock has been declared forfeited for non-payment of calls, and has been resold to R. S. Collins at a discount of 10% and expenses incurred in the forfeiture. Sixty per cent of the amount paid in by Robinson has been returned to him by the Directors.

8. A company has a paid-up Capital of \$25000, and a Surplus of \$28000. Letters Patent have been granted, permitting them to increase their Capital Stock to \$50000, and to issue full-paid shares to the stockholders for the entire capital, the old shares to be called in and canceled. Show all the entries and accounts, including the Stock Ledger adjustments.

9. The above company on moving its plant to Brockton received a free site worth \$6000 and tax and water free for the next fifteen years. Make the company's entry.

10. The City Gas Company has been organized with a Capital Stock of \$150000, shares \$100 each, with three incorporators, A. Blain, C. King, and D. Hinton, each of whom has subscribed for \$20000, of which one half is paid in cash. They are to receive full-paid stock, and \$30000 is to be charged to organization expenses. The company has a franchise from the city of Dayton giving it the right of supplying the city and its citizens with gas for twenty-five years. The directors have placed \$50000 of stock on the market, which was immediately subscribed at 125, and one half paid in, the balance to be paid in three installments. Subscriptions have been received from H. B. Swain and W. S. Wagner for 100 shares of stock each, at 150, on which they have paid 75% in cash, the balance to be paid in one month.

The franchise cost \$30000. Of this amount \$5000 has been paid down, and \$1000 is to be paid at the end of each year. Make the opening entries and post to the Ledger, showing all the accounts involved. Show the accounts in the Stock Ledger, also.

EXERCISE 45

Closing Entries for Corporations

1. A Company whose Capital Stock is $80000 has a Net Profit of $9264.31. The Directors have declared a dividend of 10 %, and the balance to be carried to Surplus account. Make the entries.

Other names for the Surplus are Reserve Fund, Rest, Margin.

2. The Net Profit of the above Company is $11372.12, out of which the Directors declare a dividend of 10 %. They have also decided to carry $2000 to Surplus account, and the remainder to Undivided Profits account. The dividend has been paid in cash. Make the entries.

3. The Pratt Boiler Works has a paid-up Capital of $100000 and a Surplus of $5260. Their Profit and Loss account for the year is Dr. $11640.21 and Cr. $23821.10. The Directors have declared a dividend of 15 %, to be paid one half down, and the balance in one month. Make all the entries, including the second payment of dividend.

It is not uncommon for corporations to draw upon the Surplus earnings of past years for the purpose of equalizing dividends in years which are not so prosperous. Indeed this is one of the reasons why a Surplus is created.

4. The Bennett Manufacturing Co. has an authorized Capital of $50000, four fifths of which is subscribed at par, and 75 % paid thereon. At the end of the year the Net Profit is $5290.75, after allowing for all reasonable expenses, out of which the Directors declare a dividend of 10 % on the subscribed capital. The dividend is applied as part payment on the subscribed shares. Make all entries, and show the accounts involved as they would appear in the ledger.

As a rule dividends are declared only on the paid-up stock, but, as in this example, the directors may use their discretion, unless the By-laws or Minutes specify differently. In any case, dividends must not be declared if by so doing the company's capital becomes impaired.

5. The Model Trading Co. has Common Stock, $100000, and 7 % Preferred Stock, $50000. The Net Profit for the year is $10500, out of which $2000 is to be carried to Surplus, the

balance to be paid as dividends. Make the entries, including the dividend payments. What rate of dividend was declared?

6. The Jas. Barton Company is manufacturer of carpets and rugs, and has a Capital of $750000, one third of which is 6% Cumulative Preferred Stock. The Company has also a Surplus of $65000, and Bonds outstanding, $200000, drawing 4½% interest, with ten years yet to run. The profits for the year are $56554.80, out of which the Directors have paid bond coupons, dividend on preferred stock, and 4% dividend on common stock. They have also added $5000 to Surplus account, and $8500 to the Sinking Fund account. Show all of the entries. Rule up all of the accounts involved and show how they will appear after carrying out the above instructions.

Cumulative Preferred Stock is stock on which dividends accumulate from year to year if not paid. When the Company is able to do so, it must pay the back dividends before other dividends can be declared.

7. The authorized Capital of a Company is $40000, of which $30000 has been subscribed and $15000 paid up. The Company is prosperous, and it has been decided to devote ½ of the dividends every six months to the payment of subscribed stock, until it is entirely paid up. The Directors have declared a dividend of $12000, and have carried $1850 to Undivided Profits account. (*a*) Make the entries, including the payment of dividends.

(*b*) Suppose that the subscribed stock is paid up, and that a stock dividend of $10000 has been declared. Make the entries.

8. The Surplus account of a Company shows $2875, and the Net Loss for the current year is $5940. In addition to this, there is salary due to officers, but not entered up, $950. What disposition should be made of these amounts? Make entries to adjust.

EXERCISE 46

Stock Ledgers

Rule up a suitable Stock Ledger and enter up each of the following so as to exhibit the information desired:

1. The Rogers Wheel Company has been organized with a

Capital of $10000, fully paid. The following stockholders each hold 25 shares, valued at $100 per share; Thos. Conley, Chas. Beaman, C. H. Banks, Wm. Ritchie. Show the account of each stockholder as it should appear in the Stock Ledger.

2. The Authorized Capital of a Company is $20000, and subscriptions have been made as follows: Wagner, 100 shares, Robinson, 25 shares, and Bennett, 25 shares; 50 shares remain unsubscribed. The first payment of 50% on account of the subscriptions has been made, and the balance is to be paid in one month.

Show the stock account of each subscriber, also the Capital Stock account, as it should appear in the Stock Ledger.

3. On June 5, Jas. Mullen made application for 50 shares of stock of the Swift Beef Co.

June 10 — He was allotted 50 shares.

June 15 — He paid the first call of 50%.

July 15 — He paid the second call of 50%.

Aug. 1 — He transferred 10 shares to Thos. Leslie.

Aug. 20 — He purchased 25 shares from Robt. Grant.

Sept. 1 — He transferred 20 shares to Geo. Mullen.

Show his account as it should appear in the Stock Ledger after the last transfer is made.

4. Harold Thompson is the heaviest stockholder in the Thompson Sand Co., holding 100 shares of stock, par $100. He has donated to the Treasury of the Company 50 shares of stock to be sold for raising working capital. Twenty of the shares have already been sold for $1800 cash to Wm. Johnson.

Show the accounts for Thompson and Johnson as they should appear in the Stock Ledger.

5. The Wagner Baking Co. has decided to increase its Capital from $50000 to $75000, and has received Letters Patent authorizing the increase. The new issue of stock has all been disposed of at a premium of 10%, and 50% paid in cash. The balance is to be paid in one month.

Show the stock account of John Wagner, who formerly owned 200 shares, and has taken 100 shares of the new issue. Show the stock account of Geo. Wagner, who has purchased 20 shares of the new issue.

6. The Quick Cement Co. has reduced its Capital Stock from $30000 to $20000. Show the stock account of Jas. McDonald, who formerly had 30 shares of stock fully paid.

Show the Capital Stock account in the ledger after the reduction is made.

7. On Aug. 12, H. J. Bennett made application for 30 shares of Stock of the Rapid Motor Co.

Aug. 15 — He was allotted 20 shares at $100 each.

Aug. 16 — He paid the first call of 25 %.

Aug. 20 — He purchased 10 shares from J. L. Kennard on which the first call was paid.

Sept. 1 — He paid the second call of 25 %.

Sept. 15 — He paid the third call of 25 %.

Sept. 25 — He transferred 15 shares to N. Bartley.

Oct. 1 — He paid the last call of 25 % and received a full-paid certificate.

Show his account as it should appear in the Stock Ledger.

EXERCISE 47

Changing Firms to Corporations

1. H. M. Wilson and S. W. Moore have been carrying on business under the firm name of Wilson & Moore, and now wish to become incorporated with a Capital Stock of $20000, shares $100 each. Their respective interests in the business are $8000 and $6000, and A. J. Moore has subscribed and paid cash for $2000 of the company's stock. Wilson & Moore turn over their present interests to the company in exchange for paid-up stock; the remaining stock will remain unsubscribed for the present.

If the same books are to be continued, make the entries necessary to record the change.

2. A company is incorporated with a Capital of $30000, shares $50 each, all of which has been subscribed as follows: A, $12000; B, $5000; C, $5000; D, $4000; E $4000. The company is organized to take over the business formerly conducted by A, in which there are Resources amounting to $12500, and Liabilities to $3000. The Goodwill is valued at $2500. A is given

full-paid stock for the business turned over, and the other subscribers have each paid one half of their subscriptions.

If A's books are to be continued, make the necessary entries.

3. Grant and Harding, the proprietors of a wagon manufactory, convert their business into a corporation with an Authorized Capital of $100000, — 1000 shares of $100 each. After paying all existing liabilities and closing the books, their respective Net Capitals are $20000 and $30000; and their assets: Mdse., $18000; Real Estate, $10000; Plant (machinery, etc.), $20000; Expense (horses, wagons, etc.), $2000. They take 500 shares of the paid-up stock as their share; and 10 other persons take 50 shares each, and pay 75 % in cash on them.

(*a*) What steps, legal and otherwise, are necessary to make the change?

(*b*) What books, if any, are required to be kept by law, and what are necessary to record the company's business?

(*c*) Make the necessary opening entries on the books of the corporation.

Consult the laws of your state for information. The details connected with the incorporation of an established business are numerous and require the greatest care, and in most cases require the services of a lawyer.

4. Thompson owns a lime property. He disposes of it to the Thompson Lime Co., which has been organized under the laws of the state, with a capital of $50000, divided into 500 shares of $100 each.

The property taken over by the Company is as follows:

Land, $15500; Railroad Siding, $2450; Kilns, $12000; Plant, $5000; Buildings, $4200; Accounts Rec., $3500; Stock on hand, $750; Office Furniture, $300.

There is a Mortgage of $6000 against the Land given above, and Accounts Payable, $2100. The Kilns are taken over at a valuation of $11000, Buildings at $4400, Plant at $4500, and the personal accounts at $3200.

In exchange for the above, Thompson has received 400 fully paid shares of stock of the company.

At the organization of the company, Swift, Alford, and Martin subscribed for 20 shares each, and their subscriptions have been paid in cash.

Show in Journal form the necessary entries to close the old books, also to open the new books. Open the Ledger accounts for the company, and show a trial balance of the accounts. Assume that a continued trial balance book is to be used.

Remember that a trial balance like the above should have all the necessary accounts included at the beginning.

5. Jas. Long and Thos. Gray are partners in the manufacture of Aluminum supplies, and the condition of their business is as follows:

Resources		*Liabilities*	
Land and Buildings,	$10000	Mortgage on Buildings,	$4000
Machinery and Tools,	3500	Notes Payable,	3500
Patents and Drawings,	1100	Accounts Payable,	2650
Material on Hand,	2300	Labor unpaid,	320
Finished Stock,	3200	Reserve for Bad Debts,	230
Furniture and Fixtures,	900	Jas. Long, Capital,	8500
Cash in Bank,	2450	Jas. Long, Personal,	900
Petty Cash,	50	Thos. Gray, Capital,	8500
Accounts Receivable,	4560	Thos. Gray, Personal,	900
Notes Receivable,	1200		
Insurance prepaid,	160		
Taxes prepaid,	80		
	$29500		$29500

They have decided to convert their business into a corporation under the name of Aluminum Supply Company, with an authorized Capital of $40000, shares $100 each. Letters Patent have been received. The incorporators are Jas. Long, with 120 shares; Thos. Gray, 120 shares; Geo. Miller, 60 shares; and Frank Scott, 10 shares. Miller and Scott have paid cash for half of their subscriptions, and Long and Gray have turned over the entire business in full payment for their subscriptions.

In order to raise working capital, the Company has issued $12000 in 6% First Mortgage Bonds to fall due in 10 years. To every purchaser of $500 worth of bonds, one share of stock is to be given as a bonus. Bonds to the extent of $8000 have been sold for cash, and fully paid bonus stock given as per contract.

(*a*) Make the opening entries on the Company's books, using whichever method of recording the capital stock you think best.

(*b*) Make entries for the subsequent issue and sale of bonds and bonus stock.

EXERCISE 48

Incorporation of Going Concerns

1. G and H have patented an electrical cleaning device, and have borrowed $1200 on their note, with which to complete their invention. They have organized a corporation with a capital of $50000, shares $100 each, to which the patent has been sold for stock to the value of $40000. The indebtness of $1200 is to be paid by the company. Two shares have been given to K in order to fufill the incorporation requirements. They have each donated to the company stock to the amount of $10000, to be sold at a discount in order to provide working capital.

They have disposed of 140 shares of the donated stock to subscribers at half price, 50% of which has been paid in cash.

Give the entries to properly record the transaction, and show the accounts involved.

2. A owns a business that he wishes to enlarge and arranges with B to turn it into a corporation with an Authorized Capital of $100000. It is mutually agreed that all personal accounts receivable and payable shall be kept out of the deal, but the new company is to undertake to collect them for A. A's indebtedness to creditors is to be paid out of this collection, or, if it proves insufficient, A is to make good the deficiency. For the purpose of this sale the Merchandise on hand is valued at $25000, the Store Building at $15000, and the Goodwill at $5000. A is to receive in settlement, cash, $5000, and capital stock for the remainder. B is to invest a sum equal to that of A, and C is to take one share. The statement of A at the date of transfer shows:

Assets		*Liabilities*	
Real Estate,	$12000	Accounts Payable,	$5000
Merchandise,	30000	Capital,	45000
Accounts Receivable,	6000		
Cash,	2000		
	$50000		$50000

At the end of 6 months an accounting is had between the corporation and A. Of the outstanding accounts $4500 has been collected and applied toward liquidating the accounts payable. It is then agreed that the company shall take over the remaining uncollected accounts and assume the remaining liability on account of creditors of A.

(*a*) Close the books of A in accordance with agreement of sale and subsequent arrangements. Show the ledger accounts.

(*b*) Open the books of the corporation and show the ledger accounts.

(*c*) Show the entries in the books of the company as to its transactions for account of A, at the time of forming the corporation, and when the subsequent agreement was made.

NOTE. The agreement to handle the personal accounts of A is a business transaction apart from the incorporation of the company, and need not be considered in the transfer.

3. Sept. 1, 1908. The firm of Bennett, Jewell, & Co. has decided to form a corporation to be known as the Modern Cloth Company, with an Authorized Capital of $100000, shares $100 each. They are to take stock in the new company to the value of their present holdings, for which they will transfer all of the assets shown in the Statement of Assets and Liabilities. The new company is to assume all liabilities and pay the debts of the firm as set forth in the statement which contains the following accounts:

Resources: Cash, $31311.18; note of W. & T. Allen & Co., dated Aug. 3, at 30 days, for $1000; note of Goldsmith & Co., dated July 16, at 4 months, for $2118.63; acceptance of Wm. Kraft, dated Aug. 27, at 30 days, for $316.24; acceptance of Derringer & Co, Aug. 18, at 15 days' sight, for $390.68; Mdse. per inventory, $90000; Fixtures, $1500; Advertising (balance of contract), $688.89; amounts due by Jas. Allison's Sons, $629.90; W. & T. Allen & Co., $1340.25; Boyer & Rex, $1052.05; S. B. Binder, $2272.07; John Beck, $642.20; Val. Baker, $743; Henry Britton, $1148.91; S. M. Bryan, $1144.42; Browning, King, & Co., $1370.10; Mahlon, Bryan, & Co., $466.50; Owen Day, $1208.38; Louis Ehrmann, $454.41; Jos. Engard, $1780.14; E. D. Edwards, $1306.32; Jos. Ferris, $371.95;

Greenwald & Co., $1461.34; Goldman & Co., $932.63; Gilbert & Rose, $311; Robert Godfrey, $3106.63; Leo. S. Guckert, $362.05; Hirsh & Co., $823.17; A. Harrison, $451; Kohn & Co., $1147.50; P. Lang, $188.60; H. F. Nell, $111.13; Wanamaker & Brown, $573.85.

Liabilities: Acceptance of Emerald Mills' draft of Aug. 10, at 30 days, for $15000; acceptance of Lippincott, Johnson, & Co.'s draft of Aug. 18, for $7500, at 90 days; acceptance of Harris Bros.' draft of Aug. 24, at 90 days, for $12341.90; acceptance of A. H. Love & Co.'s draft of Aug. 30, at 60 days, for $11599.75; R. J. Bennett's note, dated June 4, at 3 months, for $4500; amounts due Emerald Mills, $3894.55; Harris Bros., $4417.35; Lippincott, Johnson, & Co., $25572.94; Samuel Marks, $123.63; N. W. Ayer & Son, $775.

The secretary has received subscriptions as follows: R. J. Bennett, 340 shares; W. F. Jewell, 200 shares; W. H. Shaw, 130 shares; Henry F. Nell, 50 shares; Wm. Murray, 25 shares; and Student, 50 shares; 205 shares to remain unsubscribed.

Received from H. F. Nell, Wm. Murray, and Student, cash for shares subscribed for by them, for which stock has been issued.

Bennett, Jewell, & Co. turn over in settlement for their subscriptions the resources and liabilities shown by the above statement, and stock has been issued for same.

R. J. Bennett is to receive a salary of $2500 a year for acting as Manager; W. H. Shaw, $2000 a year as Treasurer; and Wm. Murray, $1800 a year as Secretary. The Company has purchased the mill formerly used by the Ideal Manufacturing Company for $20000, with all machinery, tools, fixtures, etc., for $10000; total, $30000. Terms: one half cash, $10000 on October 1, and $5000 on November 1, 1908. Paid on account of purchase of mill, $15000. Paid for new set of books, including stock books, $250. Paid for corporate seal, $15. Paid the lawyer's bill for services in incorporating, $150; and the accountant's bill for $100. Paid $240 for sundry expenses in organizing.

(*a*) Show the Balance Sheet containing all resources and liabilities.

(*b*) The closing entries for the firm's books in which one ledger has been kept.

(*c*) The opening entries on the books of the corporation, in which a Sales Ledger is to be kept apart from the General Ledger.

(*d*) Show all the necessary accounts properly opened in both ledgers.

(*e*) Show records and entries for the transactions and payments subsequent to incorporating.

EXERCISE 49

Amalgamation of Corporations

During the past few years there has not only been an unprecedented increase in the number of companies incorporated, but a growing tendency on the part of those companies to unite their forces by amalgamating under one separate name.

Procedure. The directors of the companies proposing to consolidate usually enter into an agreement to be executed under the corporate seal of each of the said companies. This agreement prescribes the terms and conditions under which amalgamation shall take place, the method of carrying same into affect, the details of the new company, etc.

This agreement shall then be submitted to the stockholders of each of the said companies at a meeting thereof called for the purpose of taking it into consideration. It is then either adopted or rejected, a $\frac{2}{3}$ vote of all the stockholders of each company usually being required for its adoption. After these formalities a joint petition is usually sent to the proper state official asking for confirmation of the decision and the granting of a new charter. The process of reorganizing, canceling and issuing of stock, transfer of property, etc., is then proceeded with.

Exercise

We will illustrate briefly the entries by means of an example.

Example. The Blackman Bread Co. and the Robertson Bread Co., both of Harrisburg, amalgamate under the name

of the Metropolitan Bread Co. The assets and liabilities of both companies are taken over according to the subjoined statements and shares of the new company's stock issued to the stockholders in place of the old shares held by them, which are now surrendered. The Blackman Co.'s balance sheet stands as follows:

Assets		*Liabilities*	
Plant,	$6000	Notes Payable,	$2000
Goods,	2000	Capital Stock,	6500
Cash,	500		
	$8500		$8500

The Robertson Co.'s balance sheet is as follows:

Assets		*Liabilities*	
Plant,	$9000	Accounts Payable,	$800
Goods,	1500	Notes Payable,	3000
Cash,	900	Capital Stock,	7600
	$11400		$11400

Make the necessary Journal entries to open the books of the new Company.

Answer.—

(1) Plant,	$6000	
Goods,	2000	
Cash,	500	
To Bills Payable,		$2000
To Stockholders Blackman Bread Co.,		6500

The above entry brings into the books of the new Company the assets and liabilities of the old company, and credits the Blackman Co. for the amount due them in shares according to agreement.

(2) Plant,	$9000	
Goods,	1500	
Cash,	900	
To Accts. Payable (per schedule),		$800
To Bills Payable,		3000
To Stockholders of the Robertson Bread Co.,		7600

(3) Stockholders of the Blackman Co.,	$6500	
Stockholders of the Robertson Co.,	7600	
To Capital Stock,		$14100

For shares of the Metropolitan Bread Co., issued to the stockholders of the amalgamated companies, the certificates formerly held by them having been surrendered.

Exercise. — Make Journal entries to close the books of the Blackman Co. and the Robertson Co. respectively.

Answer. — Entries for Blackman Bread Co.

(1) Metropolitan Bread Co.,	$6500	
Bills payable,	2000	
To Plant,		$6000
To Goods,		2000
To Cash,		500

For transfer of business to Metropolitan Co. at price agreed upon.

(2) Capital Stock,	$6500	
To Metropolitan Bread Co.,		$6500

For redemption by Metropolitan Co. of stock certificates held by stockholders of the Blackman Co., who have received shares of Metropolitan stock instead.

Entries to close the Robertson Co.'s books would be made in the same manner.

Examples to be Worked

1. If, in the above amalgamation, the stockholders of the Blackman Co. had been given $7800 stock for their business, what effect would that have upon the entries to be made in the books of the new concern? Also on the books of the old company?

2. The following four companies amalgamate under the name of the Southern Tobacco Company, with an Authorized Capital of $1000000, consisting of 6000 shares of $100 each of 7% Cumulative Preferred Stock and 4000 shares of Common Stock of $100 each. The subjoined statement shows the Capitalization and Assets of each concern and also the amount of Preferred Stock given in settlement by the new company to the stockholders of the old companies. Fifty shares of Preferred Stock and 100 shares of Common Stock are given to W. H.

Steele for his services in promoting the consolidation. The remainder of the Common Stock was sold for cash at par.

Accounts	Tucket Co.	Milligen Co.	Scales Co.	Steele Co.
Capital Stock	75000	90000	75000	50000
Cash	15000	12000	13000	11000
Goods	40000	30000	25000	18000
Plant	60000	25000	20000	15000
Real Estate	125000	32000	15000	18000
Preferred Stock given	300000	125000	90000	80000

Make Journal entries for opening up the books of the new company, and show the accounts opened in the new ledger.

Show the closing entries for each of the selling companies.

3. Three joint stock companies engaged in the book business amalgamate their interests under the name of the Commercial Book Syndicate. It is agreed that Stock in trade be taken over at a discount of 20 %. Fixtures at a depreciation of 25 %, and that Book Debts be subject to a discount of 10 %, to be set aside as a reserve for Bad Debts. On this basis, 7 %. Preferred Cumulative Stock is issued for the amount of the Net Assets of the three concerns. As payment for Goodwill they receive $3000, $4000, and $5000 Common Stock respectively. On the date of amalgamation the Balance Sheets of the three companies show the following totals:

Accounts	No. 1		No. 2		No. 3	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash on Hand	$600		$500		$800	
Stock in Trade	4000		6000		10000	
Fixtures	500		1000		3000	
Book Debts	1200		2000		4000	
Reserve Accounts		$900		$600		$1100
Capital Stock		5400		8900		16700
	$6300	$6300	$9500	$9500	$17800	$17800

Cash is handed over in all cases in place of the fractional portion of a share. Make Journal entries to open a set of new

books for the Syndicate. Open all the necessary accounts in the new ledger and complete the posting, after which take off a trial balance.

Make closing entries for the selling companies, and show the ledger accounts of No. 1 after the transfer is completed and adjusting entries are made.

EXERCISE 50

Questions on Corporations

1. What is a corporation? Joint stock company?

2. How does a corporation differ from a partnership?

3. Name the several steps and requirements for the formation of a corporation in your state.

4. What is a *certificate of incorporation?*

5. How many persons are required to form a corporation? What is the franchise fee?

6. How much stock must be subscribed at the beginning? How much paid in?

7. How long may a corporation exist? How may it be dissolved?

8. Explain: Authorized Capital, Bonded Capital, Capital Stock, Common Stock, Preferred Stock, Cumulative Preferred Stock.

9. Explain: Paid-up Stock, Subscribed Stock, Unsubscribed Stock, Treasury Stock.

10. Explain: Net Profit, Dividend, Surplus, Undivided Profits.

11. Explain: Cash Dividend, Stock Dividend, Passing a Dividend.

12. In what way does the bookkeeping for a corporation differ from that of an individual or firm?

13. Name the additional books and records required by a corporation.

14. When changing from a partnership to a corporation, give the procedure for dissolving the partnership.

15. What adjusting entries are required in case the same books are to be continued?

16. Suppose the authorized capital of a company to be $100000; the amount subscribed, $60000; and the amount paid up, $40000; how may a dividend of 10 % be declared, and on what?

17. What does the Stock Ledger contain? How are the entries made therein?

18. Show the account of a subscriber who is paying his subscription in installments; and another who has bought for cash.

19. If there are only ten or fifteen subscribers, what advantage is gained by having their accounts in the general ledger?

20. What entry is required if dividends are credited as part payment on subscriptions? When a stock dividend is declared?

21. If the year's business shows a net loss, what disposition should be made of the loss: (1) In case there is a surplus? (2) In case there is no surplus? May a dividend be paid in either case?

22. When does a corporation make its report to the State? What does the report contain? Is there any penalty for failure to file the report?

23. A corporation issues $50000 in First Mortgage 4 % Bonds and sells them for cash. What entry?

24. The bonds are to run twenty years and to be paid out of a Sinking Fund. What is a Sinking Fund, and what entries are required on the books to establish same?

25. What entry is made when the bond coupons are paid at the end of the year?

EXERCISE 51

Self-balancing Ledgers

Set to be worked, using General and Special Ledgers

In almost every large business it is found advisable to keep more than one ledger. This is done when the accounts are numerous and therefore require to be subdivided in order to facilitate work and to permit of the posting being made by two or more bookkeepers. The ledgers generally used are: (*a*) *Sales Ledger*, containing Personal accounts of customers; (*b*) *Purchase Ledger*, containing Personal accounts of creditors; (*c*) *General Ledger*, containing all other accounts of the business. The Sales Ledgers may be further subdivided if necessary, as A to H, I to R, etc., or according to the sections of the country, as Western Sales Ledger, City Sales Ledger, etc. The ledgers mentioned in (*a*), (*b*), and (*c*) are also known as Debit Ledger, Credit Ledger, and Private Ledger.

Controlling Accounts. Subordinate ledgers are represented in the General Ledger by totals only. The accounts which contain these totals are termed Controlling accounts, since they control or represent accounts contained in a separate ledger.

By means of Self-balancing Ledgers it is possible for a merchant to obtain a complete statement of his business from the General Ledger alone without reference to either the Sales or Purchase Ledgers, for the reason that the difference between the two sides of the Sales Ledger account in the General Ledger is the net total balance due from customers, and the difference between the two sides of the Purchase Ledger Account shows the net total balance due to creditors; in other words, these two accounts are summaries of the Ledgers which they represent.

Another great advantage in having books arranged on this principle is that mistakes in any one of the Ledgers can be located quite readily, because if a Ledger is out of balance the

error is necessarily one connected with the entries posted to that particular Ledger. When all the Ledgers are in balance the General Ledger controlling account in the Sales Ledger will correspond with the Sales Ledger controlling account in the General Ledger with the sides reversed; and the Purchase Ledger controlling account in the General Ledger will similarly correspond with the General Ledger controlling account in the Purchase Ledger.

1. Write up the following transactions, and use a set of books consisting of Cash Book, Sales Book, Purchase Book, Journal, Sales Ledger, Purchase Ledger, and General Ledger.

SEPT.	1.	Began business with a Cash investment of	$5000
SEPT.	5.	Bought Merchandise on account from A. Gray,	300
SEPT.	6.	Bought Merchandise on account from J. Wood,	400
SEPT.	7.	Bought Merchandise on account from S. Mills,	650
SEPT.	8.	Sold Merchandise on account to W. Smith,	100
SEPT.	15.	Sold Merchandise on account to G. Miller,	150
SEPT.	15.	Sold Merchandise on account to H. Mackey,	245
SEPT.	16.	Paid A. Gray, $120, on account.	
SEPT.	20.	Paid J. Wood, $230, on account.	
SEPT.	22.	Received of W. Smith, $75, on account.	
SEPT.	25.	Received of Geo. Miller, $80, on account.	
SEPT.	30.	Paid rent, $50.	

Post the above transactions to the respective Ledgers. Take off a Trial Balance of each ledger, close all books and accounts, and prepare a Balance Sheet. Merchandise on hand, $1000.

2. In a business three Ledgers are kept; namely, Private Ledger, Debit Ledger, Credit Ledger; and each Ledger is made to balance separately. Provided the firm referred to posted from the Cash Book, Purchase Book, Sales Book, and Journal, show entries and postings for the following transactions:

OCT. 1. Began business with a Cash investment of $6000.
OCT. 3. Bought of T. Williams Merchandise, $1800, on account.
OCT. 5. Bought of A. Scott Merchandise, $2000, on account.
OCT. 7. Gave T. Williams Cash, $500, and Note at 60 days, in settlement of invoice of the 3d.
OCT. 9. Sold R. Greene Merchandise, $200, on account.

Oct. 11. Accepted A. Scott's Draft at 30 days for \$1500.

Oct. 13. Bought of T. Williams Merchandise, \$700, and gave \$200 cash in part payment.

Oct. 15. Received of R. Greene Cash, \$175, to apply on account.

Oct. 18. Gave A. Scott Cash, \$300, to apply on account.

Oct. 20. Sold W. Jackson Merchandise, \$650, on account.

Oct. 25. Paid Rent, \$75, in full for month.

Oct. 27. Received of W. Jackson Cash, \$400, and his 60-day Note for \$200.

Oct. 27. Sold D. Sinclair Merchandise, \$320, on account.

Oct. 31. Paid Salaries in full to date, \$125.

Take off a Trial Balance of each Ledger, close the books and prepare a Balance Sheet. Merchandise on hand, \$3500.

EXERCISE 52

Manufacturing Exercises

Manufacturing, Trading, Loss and Gain, Balance Sheet

1. Divide the following accounts as between Manufacturing account and Trading account: Raw Material and Finished Stock on hand at beginning of year; Purchases Material; Freight and Duty; Light and Power; Labor; Salaries; Sales, less Returns; Discount on Sales, and on Purchases; Manufacturing Expenses, and Selling Expenses; Depreciation of Machinery; Rent of Plant, and of Store; Raw and completed goods on hand at end of year.

2. The following accounts are found on the Ledger of a Manufacturing Company; classify them among Manufacturing account, Trading account, and Profit and Loss account: Inventory at beginning of Raw Material, and Finished Stock; Purchases of Material, and of completed goods; Freight in; Freight out; Discount on Sales, and on Purchases; Returns and Allowances, Dr. and Cr.; Sales; Labor; Salaries in Warehouse; Office and Management Salaries; Light, Heat, and Power; Shop Expenses; Selling Expenses; Salesmen's Salaries, and Expenses; Interest and Discount; Rent of Factory and Warehouse; Depreciation on Plant and Machinery, and on Office

Furniture; Repairs to Machinery; Bad debts; Insurance and Taxes; Advertising; Inventory of Raw Material and Finished Stock at time of closing.

3. Prepare Trading Account and Loss and Gain Account from the following data, concerning the Brown Manufacturing Co., from Jan. 1st to June 30th. Show the division for Appropriation of Profits: Stock on hand Jan. 1st, $7000; Goods Bought, $37000; Freight Paid, $200; Wages of Workmen, $3760; Goods Sold, $50000: Inventory June 30th, $27000; Salaries of Office Clerks, $2300; Rent and Taxes, $800; Interest on Bank Deposits, etc., has produced $200; Discounts have cost $100; Office Expenses, $250; Traveling Expenses, $200; Provision to be made for depreciation on buildings, $400; Office Furniture, $15, and Fixtures, $500. Bad debts are estimated at 5% of the Accounts Receivable, which amount to $10000. Directors' fees are $750; Undivided profits carried over from previous year, $1500. It is proposed to pay a dividend of 7% on $250000 of stock fully paid up; to set aside $4000 as Surplus; and to carry the balance of Net Profit over to next year.

4. Prepare Manufacturing and Trading Account, Profit and Loss Account, and Statement of Assets and Liabilities, from the following information obtained from the books of the Jones Manufacturing Co., Limited, on Dec. 31, 1908: Paid-up capital, $150000; Sundry creditors, $35000; Bank overdraft, $4000; Sales, $200000; Reserve for discounts and bad debts, $1000; Paid for royalties, $1000; Paid for interest, $5600; Directors' fees, $500; Expenses, $2250; Salaries, $7000; Taxes, $1300; Advertising, $1250; Coal and water used in manufacturing, $2250; Repairs to plant, $4000; Freight Inbound, $4000; Expenses connected with putting up machinery sold, $8000; Wages, $59000; Purchases, $70000; Cash on hand, $500; Debtors, $73850; Patents cost, $5000; Loose tools were valued on Dec. 31, 1907, at $12500; Office Furniture, at $2000; Stock on hand, at $45000. Patterns cost $16000, Machinery and plant cost $44000, and premises, $25000.

Write depreciation from land and buildings, 3%; Machinery and plant, 10%; Patterns, 10%; Patents, 10%; Office Furniture, 5%, and make a provision of 4% on debtors for discounts

and bad debts. On Dec. 31, 1908, the stock on hand was valued at $47500, and the loose tools at $11500. It is proposed to declare a dividend of 5%, and to carry the balance of profits to a Surplus account.

5. On Dec. 31, 1908, Andrews, Harrison, & Hancock, Portland cement manufacturers, take the following trial balance. According to the terms of the agreement, the capital was to be $50000, each partner to be credited with interest at 6% per annum on his capital invested; Andrews is to receive a salary of $1500 a year; Harrison $1200; profits and losses are to be divided in proportion of 40% each to Andrews and Harrison and 20% to Hancock. Inventories on Dec. 31 are: Clay, 100 tons, $750; chalk, 100 tons, $2900; 60 barrels finished goods unsold, at $4.483 per barrel, $268.98.

Andrew's Drawing,	$225.00	Andrew's Capital,	$19000.00
Harrison's Drawing,	150.00	Harrison's Capital,	21000.00
Productive Labor,	5800.00	Hancock's Capital,	10000.00
Superintendence,	200.00	Mdse. Disct.,	920.00
Chalk,	10000.00	Sales,	36460.00
Clay,	3000.00	Accts. Pay.,	12605.00
Packing Material,	1500.00	Bills Discounted,	4790.00
Heat and Power,	1800.00		
Factory Expense,	75.00		
Freight Inward,	500.00		
Insurance,	490.00		
Repairs to Machinery,	190.00		
Stable Expense,	325.00		
Traveling Expense,	750.00		
Salesmen's Salaries,	635.00		
Advertising,	2500.00		
Postage,	40.00		
Stationery and Printing,	140.00		
Office Salaries,	620.00		
Mdse. Disct.,	26.00		
Interest and Discount,	42.00		
Cash,	22477.00		
Teams and Wagons,	1800.00		
Machinery and Tools,	28200.00		
Furniture,	2000.00		
Bills Rec.,	4790.00		
Accts. Receivable,	16500.00		
	$104775.00		$104775.00

Draw up the Manufacturing, Trading, and Profit and Loss Accounts, allowing 1 % for bad debts, 1 % for discounts, 12½ % for depreciation of furniture, 10 % for depreciation of machinery, and 12½ % for depreciation of teams and wagons. Factory and site belong to Andrews and are rented to the firm for $600 a year. The teams are used equally for hauling in raw materials and delivering the finished product to trains.

6. Referring to question 5, what is the per cent of gross gain? Of net gain? The per cent of general and office expenses?

Prepare Balance Sheet for question 5.

EXERCISE 53

Designing Columnar Books

Bookkeeping Systems for Different Kinds of Business

Special columns in books of original entry are a great help to the bookkeeper, by shortening his work and providing a detailed classification of accounts, thereby making it possible to give a clearer analysis, and to secure greater accuracy. In some cases the use of columns has been carried to the extreme, thereby proving a hindrance rather than a help, but as a rule in certain offices, as banks, financial corporations, railroads, insurance companies, and manufacturing establishments, their use is almost indispensable. In planning a suitable set of books, the bookkeeper should try to formulate such a system as will enable him to do his work with reduced effort and increased accuracy. The conditions to be found in each office must determine the system best suited to the work to be done and information to be exhibited. The young bookkeeper is often perplexed upon entering an office because of the formidable appearance of large, many-columned books, but a careful study beforehand of different systems will help to overcome this embarrassment. It pays under all circumstances to provide books that are suitable for the business, and which will give the desired information with the least amount of work. The idea that anything is good enough is a mistaken one and should not be considered.

1. A country store does a yearly business amounting to about $100000, and they divide the purchases and sales among the Grocery Dept., Dry Goods Dept., and Hardware Dept. The necessary expense accounts are to be kept and prorated to the different departments at the end of each year. They discount their own bills, but customers are numerous and either have running accounts or give promissory notes, some of which are discounted at the bank. Cash sales are numerous.

Give a list of the books that would be used to advantage by this firm, and a list of the accounts that should be opened. Rule up sample pages of the books to be used, including the continued trial balance.

2. A firm of three partners with a capital of $5000 each, has a business of Blacksmithing, Woodworking, and Tinsmithing. The business aggregates $15000 per year, most of which is on account. Each one of the proprietors is in charge of a department, and along with his helpers receives a fixed salary which is chargeable to the expense of the department. They buy considerable raw material on account, and make it up, but their chief income is derived from services performed and work done.

Arrange a suitable set of books to take care of the business and to show the volume of income and expenditure for each department. Rule up sample pages of all books to be used, and give a list of accounts showing the order in which they should appear in the ledger.

3. A department store has six departments and does a $300000 business on a paid-up capital of $150000. They sell for cash, and buy on 30 days, but usually discount their bills. They borrow quite heavily on notes from the bank. They wish as nearly as possible to have a monthly statement showing the sales, purchases, and expenses for each department, and a list of the current resources and liabilities. Daily reports of sales are sent in from each department.

Give a list of books best suited to the business, and the accounts to be opened arranged in proper order. Rule sample pages of the books to be used, also a copy of the Sales Tickets, Daily Sales Report, and the Monthly Statement.

4. Rule up a Voucher Register for a corporation which manufactures furniture. They buy raw material in large quantities and usually discount their bills. They own their plant, and keep a detailed account of purchases of material, sales, operating expenses, general expenses, cost of manufacturing, etc. Prepare a suitable Register for the company and use whatever subdivisions you think advisable.

Rule up a suitable form of Voucher for the company.

5. Prepare an Account Sales Register for a firm of commission merchants, who send and receive consigned goods. Only part of the consignments are settled for when sold, and sight drafts are used quite freely between Principal and Factor.

6. A company sells machinery to farmers on the installment plan. A note is received for each sale, which provides for payment by installments every three months until paid for in full. Rule up a suitable Bills Receivable book to take care of the notes and the installments as they fall due. Arrange each purchaser's account so as to show the amounts paid, the details of sale, etc.

7. Andrew Walker is a caterer, and runs a restaurant in connection. His investment is $5000, on which he does a business $15000, one third of which is from the restaurant. He pays all bills promptly, but does the catering on *time*. The restaurant does a cash trade. He wants to show as nearly as possible the business done by each department, and engages you as bookkeeper. Design a set of books. Show sample pages of each book, and a list of the accounts required. Rule up a suitable form of monthly statement to be presented.

EXERCISE 54

Analysis of Financial Reports

Examination of Statements for Firms and Companies Seeking Loans of Banks, etc.

1. At the beginning of the year a firm's net capital amounted to $7924.80, and at the end of the year to $5876.40. Show by

means of figures how this could take place while there has been a net gain of $ 884.76.

2. John Lyons is in the Wood and Coal business and has asked you to lend him $ 300 on his note at 6 months, with 6 per cent interest. Owing to a depression in business his sales have fallen quite heavily, and he is forced to seek a loan. He has been in business for the past five years and apparently has been doing well. He purchased a house worth $ 3000, which is now in his wife's name.

How would you proceed to satisfy yourself whether or not it would be safe for you to grant his request?

3. A and B are partners, the former being a *special* partner and holding a good position. They each originally invested $ 1000 in the business, but are now in difficulties, as the creditors are demanding payment.

The following is a statement of their condition:

Assets		*Liabilities*	
Cash,	$ 75.00	Creditors,	$ 4500.00
Merchandise,	3625.00	A's Capital Account,	1000.00
Notes Receivable,	1200.00	B's Capital Account,	800.00
Accounts Receivable,	1100.00		
Furniture and Fixtures,	300.00		
	$ 6300.00		$ 6300.00

B has no other property, but A is fairly well-to-do. In case of failure, it is estimated that the assets would realize about $ 3000; on the other hand, if the creditors will give them time, they promise to pay in full. They have asked the bank for a loan of $ 400, with A as indorser, in case the creditors agree to wait.

Should the creditors close up the business, or grant them time? If time is granted, would the bank be safe in giving the loan?

4. John Smith is seeking a loan from the bank. He gives the following particulars of his present position and wishes you to prepare a statement which will bear out his contention that he has made money during the past year:

Capital Account, end of year,	$ 7800.00
Customers' Accounts,	10500.00

Sales to Date,	35000.00
Cash on Hand,	300.00
Stock in Trade,	5000.00
Fixtures,	800.00
Creditors,	4500.00
Loan from Bank,	195.00
Bills Payable,	2000.00
Expenses of Business,	950.00
Drawings (which have been charged to Capital Account),	1800.00

Can this be done? If so, how? If not, why?

5. Wm. Logan and Thos. Robinson are partners in a Flour Mill, sharing gains and losses equally. Following is their statement of assets and liabilities which they present to the bank from whom they are seeking a loan of $ 1200.

EMPIRE FLOUR MILL

STATEMENT, DEC. 31, 19—

Assets		*Liabilities*	
Cash on Hand,	$ 36.40	Notes Payable, Creditors,	$ 900.00
Balance in Bank,	159.35	Note Payable, Special Loan,	500.00
Accounts of Customers,	568.25	Loan from Bank, nearly due,	250.00
Customers' Notes,	420.00	Loan from Logan,	400.00
Merchandise,	3680.70	Accounts Payable,	854.70
Machinery and Fixtures,	6875.00	Logan, Capital,	5500.00
Rent prepaid for 4 Months,	400.00	Robinson, Capital,	3735.00
	$ 12139.70		$12139.70

They have been in business for seven years and have done fairly well. Each partner has built himself a house, Logan's now being in his wife's name. They have done an annual business averaging $ 8900, the sixth year aggregating $12274.80, while the past year fell to $ 7981.87. They explain this decline in business to the fact that they have been installing new machinery and have not been able to accommodate customers; also to the fact that a competing mill has opened up during the year. The partners are regarded as shrewd, reliable business men, and they carry $ 5000 insurance on the property.

Upon examination you found that the machinery is not worth

over \$ 5600; that many of the book accounts are worthless, and that others are doubtful, the good amounting to about \$ 275; most of the notes are long past due, though about one half may be good; the merchandise is inventoried at the present market value, which is considerably above cost. The liabilities are correct, and some of the accounts are long overdue, while others are pressing their claims persistently; part of the notes payable are on account of machinery, while some of the others are overdue; the special loan is from a friend and has several months yet to run; they have recently discounted customers' notes aggregating \$ 725.30, about \$ 340 of which have not yet matured.

Would the bank be justified in granting the loan of \$ 1200? Explain.

6. Following is the statement of the Electric Supply Company:

FINANCIAL STATEMENT, SEPT. 1, 19—

Assets		*Liabilities*	
Cash and Cash Items on Hand,	\$ 92.37	Capital Stock,	\$ 10000.00
Accounts Receivable,	2030.65	Bank Overdraft,	11.20
Notes Receivable,	854.90	Notes Payable,	1500.00
Goods on Hand,	3500.00	Accounts Payable,	1125.32
Agent, for Consigned Goods, (at selling price)	800.00	Special Loan,	500.00
Goodwill,	2000.00	Surplus,	341.40
Unsubscribed Stock,	2000.00		
Furniture,	500.00		
Expense,	400.00		
Loss and Gain,	500.00		
Dividend prepaid,	800.00		
	\$ 13477.92		\$ 13477.92

The company has been doing business for five years, and previous to that time had been running for three years as a partnership. During the past three years it has paid 20 % dividends. During the first half of the present year they paid the usual semiannual dividend, half in cash and half in notes which are still outstanding, on the presumption that the anticipated profits for the year would fully justify. They have decided to pass the present dividend, and to try and regain their former position.

The stockholders are L. W. Seers, holding 40 shares; Wm. Bowen, 20 shares; and Andrew Craig, 20 shares. Bowen and Craig devote their entire time to the business, while Seers gives only half of his time, as he is interested also in a plumbing business which is paying well. The three men have drawn their monthly salaries regularly.

The Company has applied to a private banker for a loan of $1000. In your opinion would he be safe in granting the loan? Explain.

EXERCISE 55

Insolvency and Reorganization

1. How may a person begin business insolvent with any chance of success?

Prepare a schedule of the properties of an insolvent person usually exempt from seizure and sale under the National Bankruptcy Law.

2. Gault and Cain are partners in the firm of W. J. Cain & Co., the former being a special partner. They each invest $2000, but have met reverses and have made an assignment for the benefit of the creditors.

Following is a statement of their condition:

Assets		*Liabilities*	
Merchandise,	$2350.50	Bills Payable,	$2500.00
Cash,	1.80	Accounts Payable,	2640.40
Furniture,	240.00	Bank Loan,	500.00
Bills Receivable,	1000.00	Gault, Capital,	500.00
Accounts Receivable,	3160.75	Cain, Capital,	612.65
	$6753.05		$6753.05

The bank loan is on a note indorsed by Gault, who is well off. Cain has no property which is not exempt. It is estimated that the assets will realize $3500 at the very outside after paying all expenses. On that basis effect a settlement and show what per cent will be paid to creditors.

Show the entries for adjusting the matter, including the sale of assets and the final settlement.

3. Gray, Brown, and Green are partners, sharing profits and losses equally. Their capital accounts as shown in the books at a given date are:

Gray, Cr.,	$10000
Brown, Cr.,	5000
Green, Cr.,	1500

On this date they decide to close the business and dissolve partnership. The firm has money borrowed from the partners as follows: Gray, $2000, Green, $3000. They sold all of the assets for $19500, and after paying all liabilities, except the loans from partners, they have $3600 left. How shall this be applied?

Prepare accounts closing up the business and show how each partner's account stands.

4. You are appointed receiver of a small manufacturing company, which is to be wound up. You gather the following information from different sources: Mdse. on hand, $1900.00; Real Estate, $2000.00; Accts. Rec., $1200.00; Bills Rec., $1500.00; interest accrued on Bills Rec., $15.00; Office Furniture, $100.00; Bills Payable, $5000.00; Interest due on Bills Payable, $100.00; Mortgage on Real Estate, $900.00; Accts. Payable, $8000; Capital Stock subscribed, $10,000.00; of which there is paid up $7500.

Find the Impairment of Capital, submit a trial balance of the ledger as at the time you receive the books, and open proper accounts in the ledger.

Pass the following entries through your Journal:

(*a*) Sold the goods at 60¢ on the dollar, cash.

(*b*) Sold the Real Estate for $2400.00; purchaser assumes mortgage as part payment and gives his check for the balance.

(*c*) Collected cash as follows: For unpaid stock, $2500.00; on Bills Receivable, $1200.00; on Interest, $1200.00; on Interest, $10.00; on Accounts Receivable, $1050.00.

(*d*) Paid the creditors the first winding up dividend of 50%.

(*e*) Sold the balance of the Personal Accounts Receivable for $125, balance of Bills Receivable for $275, and Office Furniture for $65 cash.

(*f*) Paid printing, postage, and other expenses, $51.50. Paid self as receiver, $150. Paid last dividend of $8\frac{1}{2}$% to creditors.

Post those entries to the ledger, and show the net loss or deficiency. Make journal entry necessary to close up books and prepare some kind of statement to show the result of your receivership.

5. Adams, Brown, and Coons are partners in business under the firm name of Adams, Brown, & Co., sharing profits and losses equally. Adams put in $50000; Brown, $25000; Coons, $10000.

The Balance Sheet, properly certified to, is as follows:

Assets		
Cash on Hand,		$500
Bonds at Quotation,		17000
Customers' Accounts,		58000
Stock, as per Inventory,		56000
Plant and Machinery,		34000
Chattels and Stable Account,		7000
		$172500
Liabilities		
Creditors, on Open Account,		$75000
Creditors, on Notes Payable,		10000
Partners' Capital, Adams,	$55000	
Partners' Capital, Brown,	27500	
Partners' Capital, Coons,	5000	87500
		$172500

The Assets realize $140000 gross, and expenses and commissions for sale amount to $5000.

Show the final accounts of the Partners.

EXERCISE 56

Financial Companies

1. **Bank Statements.** From the following trial balance of a National Bank prepare Statement of Profits and Losses and Statement of Resources and Liabilities.

CONDITION OF THE INDUSTRIAL NATIONAL BANK OF PHILADELPHIA, PA.

AT THE CLOSE OF BUSINESS, JUNE 30, 19—

Debit Balances		*Credit Balances*	
Stocks and Bonds,	$25000.00	Capital Stock,	$100000.00
Currency and Coin,	288530.22	Circulation,	67500.00
Exchanges for Clearing House,	30200.00	Deposits,	462962.50
U. S. Bonds to secure Circulation,	75000.00	Surplus,	32750.00
Banking House,	30000.00	Undivided Profits,	2012.63
Furniture and Fixtures,	4200.00	Collection and Exchange,	1636.54
Premium on U. S. Bonds,	3750.00	Interest and Discount,	6062.17
Bills Discounted,	85290.00	Rents,	120.00
Redemption Fund (5 % of Circulation),	3375.00	Dividends Unpaid,	1500.00
Sundry Expense,	2216.84		
Salaries,	4000.00		
Items in Transit,	11100.00		
Chemical National Bank, New York,	50265.40		
National Park Bank, New York (approved reserve agent),	50420.00		
Traders' National Bank, Buffalo, N.Y.,	4221.16		
Commercial National Bank, Albany, N.Y.,	3418.41		
Farmers' National Bank, Philadelphia, Pa.,	1242.31		
Central National Bank, Chicago, Ill.,	2314.50		
	$674543.84		$674543.84

The directors believe that the building and furniture are as good as new, and have not considered depreciation. A loan of $400.00 has proved worthless, and is to be closed off. What rate of dividend should be declared?

Interest on U. S. Bonds and tax on Circulation have not been considered in the above. The statement would be improved by a consideration of these items. Interest prepaid on bills discounted and interest accrued on investments or deposits have not been considered.

2. **Savings and Loan Association.**— From the following statements and information of an Ohio Savings and Loan Company give an analysis of the items appearing in each part.

Incorporated March 4, 1896. Authorized capital, $1000000.

FINANCIAL STATEMENT FOR THE FISCAL YEAR ENDING MARCH 31, 19—

Resources		*Liabilities*	
Cash on Hand,	$58988.57	Paid-up Stock and Dividends,	$250000.00
Loans on Mortgage Security,	895240.67	Deposits and Accrued Interest,	482522.45
Loans on All Other Security,	17600.64	Deposits Secured by Collateral,	75000.00
Due for Insurance and Taxes from Borrowers,	107.36	Fund for Contingent Losses,	28500.00
		Due Borrowers on Unfinished Loans,	128414.79
		Dividend No. 20,	7500.00
Total,	$971937.24	Total,	$971937.24

REVENUE STATEMENT

Income		*Expenditure*	
Interest,	$59874.19	Dividends on Paid up Stock,	$15000.00
		To Fund for Contingent Losses,	11000.00
		Interest on Deposits,	23046.68
		Interest on Borrowed Money,	250.00
		Salaries of Officers and Directors,	2855.00
		Office Help, Rent, and Legal Services,	2891.50
		Advertising, Printing, and Supplies, and All Other Expenses,	2611.01
		Charged off Bal. Furniture and Fixtures,	2220.00
Total,	$59874.19	Total,	$59874.19

Number of Shares of Stock in Force,	2500	Par Value of Each Share,	$ 100.00
Capital Subscribed and in Force,	$ 250000.00	Borrowing Members,	22
Non-borrowing Members,	138	Borrowing Depositors,	376
Rate per cent Interest Charged Borrowing Members,	6 and 7	Plan of Association, Permanent.	

Questions

1. Is the association in good condition?
2. What was the net profit for the year?
3. Why is the income placed on the debit side and the expenditure on the credit?
4. What rate of dividend was declared?
5. What is meant by permanent plan?
6. The company had to borrow money during the year. Was that a good indication?

AUDITING

The Scope and Conduct of an Audit

An audit is an examination of the accounts, vouchers, and statements of a business. Its object is to determine whether or not the books have been kept properly and accurately, and also for the detection of errors or fraud: as

(*a*) Intentional Errors, or Fraud.
(*b*) Errors of Omission or Commission.
(*c*) Errors of Principle.

Intentional Errors. These include all errors of a fraudulent nature and those made for the purpose of deception or embezzlement, in connection with either cash or property. An omission may often be made with fraudulent intent.

Errors of Omission or Commission. These are due to carelessness, incompetence, and oversight. Errors of omission may include failure to make entries, failure to provide for accrued items, as interest, insurance, taxes, wages, etc., and neglect to provide for depreciation of assets or wear and tear of property.

Errors of commission may include wrong entries, wrong posting, wrong calculations, errors in addition or in forwarding, transposition of figures, etc.

Errors of Principles. These include all errors that have been made intentionally or otherwise for the purpose of increasing or decreasing the profits or assets of a concern. Capitalizing revenue items is a common error of principle, that is, charging to property account repairs or expenses that should have gone to expense account. This would increase the book value of the property and decrease the losses, with a corresponding inflation of the net profit. Properties purchased and charged to expense account instead of to property would have an opposite effect, by increasing the losses and decreasing the net profit, with a corresponding decrease in the net capital. While the above errors would not affect the trial balance, they are errors in the principle of double entry.

Technical Errors. Technical errors are due to incompetence and oversight, and while not affecting the final results they nevertheless misrepresent intermediate results. For example, freight inward is a charge to or part of the cost of goods purchased, whereas freight outward is a selling expense and a charge against sales. While both postings are debits, they should be kept separate; and a misapplication or merging of inward and outward freight would be a technical error.

Benefits of an Audit. The auditor is usually an accountant, but this is not entirely necessary, so long as the one who conducts the audit is competent to do so and is familiar with the particular line of business under examination. Too frequently, however, so-called audits are a waste of time and money, owing to the lack of experience and technical knowledge on the part of the ones who do the work. The benefits of an audit to the bookkeeper are that he has the advice and experience of a competent person to guide him, and the satisfaction of knowing that his work will be carefully scrutinized, thereby clearing him of any suspicion of carelessness, incompetence, or crooked work. The benefits to the management are that the bookkeeper, knowing that his books are to come under reviews by a skilled accountant, is likely to be careful, systematic, and accurate in his

work, and they have also the satisfaction of knowing that the accounts are correct. The management benefits also by the advice of the accountant in providing improvements in the accounts, in the bookkeeping system, and in the office routine.

Kinds of Audits. The methods of conducting an audit are either continuous, monthly, yearly, or casual. The continuous audit involves the examination of each item as it takes place by a regularly employed auditor, and his duty is to pass upon each voucher, payment, or statement before it becomes a matter of record. This plan is often supplemented by a yearly audit by a professional accountant. By the monthly system, requiring an audit at the end of each month, the bookkeeper is able to keep closer up to his work, and the auditor has a better opportunity to make a thorough examination. Under this plan, it may be said that the bookkeeper, during the intervals between audits, has an opportunity to make changes in the records, and thus to perpetrate fraud. By the yearly method the books and vouchers are placed in the auditor's hands at the end of the year. In this case the liability of change mentioned above is not likely, but the amount of work involved in such an audit requires that the auditor shall hurry over it more rapidly than in a monthly audit, thereby making it possible to overlook errors or falsifications. A casual audit is made whenever the management deems it advisable to do so.

The Scope of an Audit. An audit sometimes extends to the checking of every entry and an examination of every voucher and record. Again it may consist of a partial examination of the accounts, in which case their accuracy may be verified by tests which render the checking of every posting entry unnecessary. Those for whom an audit is being made may give specific directions to the effect that the audit is to be of partial nature. Sometimes in such cases the auditor is told what he has to examine, while in other cases it is left to his discretion as to what he shall inspect in order to bring in a proper report on the points submitted for his examination. A partial audit may consist of an examination of only one or two accounts or books, as merchandise account, cash account, book account, sales book, stock ledger, etc.

The advantages accruing from a regular examination of the books by an independent and competent authority can hardly be overestimated. Still, there is nothing compulsory in the matter, and there is no legal requirement which says that the books of an individual, partnership, or corporation shall be audited. In many cases, however, the by-laws of a corporation require that the books be subjected to periodical examinations by a competent auditor; and it is not unusual for the stockholders or directors of a company at their annual meeting to make provision for the employment of an accountant to do the work.

The auditor in many cases may be a stockholder in the company, but as a rule a director is not considered a proper person to conduct an audit, as he would be very likely to approve of the acts of himself and colleagues. It is not unusual, however, to have an auditing committee composed of two or more of the directors, but their report would not be considered satisfactory to the stockholders or to the public. Such examinations by committees of directors are usually conducted for the information of the board of directors themselves and maintained as an additional precaution against error or loss.

Auditor's Report. When the auditor completes his work, it is customary for him to submit a detailed report setting forth the results of his examination. In it he calls attention to the attached revenue and financial statements, and the various schedules or exhibits which form a part of the report. They are usually referred to as Exhibit A, Exhibit B, Exhibit C, etc., and the accompanying supporting schedules, as Schedule 1, Schedule 2, etc.

The report may or may not contain many details and suggestions, as the occasion demands, and it is usually directed to the Officers and Stockholders of the Company. The exhibits and statements to be presented are generally attached to this report.

A certificate is sometimes attached to the Balance Sheet and Profit and Loss Statement. There is not a set form for this certificate, but the following may be considered a fair sample:

Auditor's Certificate

"I have examined the above Balance Sheet and Profit and Loss Accounts, and have compared them with the books of the Company. I hereby certify that they are in accord therewith and in my judgment present a true and correct view of the Company's affairs.

(Signed) "CHARLES HENRY,
"Auditor."

Preparation of Books and Records for an Audit

Since the majority of students will be more interested at first in the preparation of books for an audit than in conducting it, we give a few directions as to how the books and records may be placed in presentable shape. It may be suggested that the bookkeeper can by a little effort render considerable assistance to the auditor, because of his familiarity with details and conditions within his office. A kindly act costs nothing, and the good will of the auditor may be retained thereby; while, on the other hand, lack of coöperation is not only unkind, but likely to incur the ill will of the auditor, who is the official representative of the stockholders.

We will suppose for the purpose of illustration that the books are being audited for the first time. If the business is a Corporation, the Charter (or Articles of Incorporation) should be available, together with the official records of the company, as Subscription List, Minute Books, Stock Ledgers, By-laws, etc. In the case of a Partnership the Articles of Agreement should be produced. The suggestions which follow may vary in different lines of business, and in many cases the auditor himself is expected to do some of the things mentioned.

Getting Ready for the Audit

1. Complete all postings, balance up accounts, and take off a trial balance of each ledger.

2. Prepare a list of all the books, with a brief of the contents of each and the relation which it bears to the others; that is, which books are principal, which are auxiliary, etc. Give

the name of the clerk in charge of each. It would be advisable to state also how the accounts are kept, revenues and expenses divided, etc. — in short, an intelligent statement as to the system followed in the office routine.

3. Vouchers for cash payments should be arranged in order, and available. These usually consist of canceled checks, and are either pasted back on the check stub or filed numerically. Additional vouchers may consist of receipted invoices, receipts, canceled notes or acceptances, etc.

4. If possible, all cash at the date of closing should be deposited in the bank. If this is not convenient, the treasurer should have his records up to date and the cash available.

5. A statement of Receipts and Payments of cash should be prepared and in readiness. The bank pass book should be balanced and a bank reconciliation statement made. This is imperative.

6. A complete inventory of goods, priced, extended, added, and certified by competent persons should be ready. An inventory should be made also of all amounts or allowances accrued or not yet due, owing either to or by the concern, as accrued interest or taxes, accrued insurance, wages, expenses, etc. List everything that forms an asset or liability.

7. Contingent liabilities should all be listed. They are not to form a part of the balance sheet, though it is advisable to make note of them at the bottom thereof. These are such as may at some future time form a liability and have to be paid, as notes or acceptances under discount at the bank, indorsed notes, acceptances on which the company is liable, disputed claims, etc.

8. All bonds, notes and acceptances, deeds and other securities should be listed and ready for production when called for by the auditor. Paid notes and acceptances should be available and a list thereof produced.

9. Schedules of accounts receivable and sundry debtors should be prepared, dividing them under the headings of good, doubtful, and bad; and a list of all overdue accounts showing the provision (if any) which is deemed necessary to make against possible loss should be prepared.

10. A memorandum should be kept of any other items or matters to which it is thought desirable to call the auditor's attention.

11. A draft of the financial statements should be prepared — Trading Account, Profit and Loss Account, and Balance Sheet.

Conducting an Audit

In conducting an audit there is no fixed method of procedure; therefore, in this respect the auditor is a law unto himself, and must take matters as he finds them.

1. In commencing an audit the Auditor should obtain a list of all books and records kept, the manner of handling same, the general organization of the office and accounting system, and a list of all the persons authorized to receive or pay money or order goods. From this he can plan the method of procedure in the conduct of the audit, which will vary somewhat depending upon whether it is for a partnership or corporation.

2. After getting a general idea, as above suggested, the Cash and Cash Records should receive attention. Count the cash and verify the cash book balance. Reconcile the bank balance as shown by the bank pass book and by the Company's book, and list all outstanding checks. If all receipts are deposited in the bank and all payments made by check, it is an easy matter to prove the accuracy of the cash book, since the receipts will be shown as deposits in the bank book and payments as returned vouchers. In case of doubt, secure verification of the bank balance from some bank official. The footings of the cash book should be tested. All receipts of cash should as far as possible be traced, and if receipts are given for same, the stubs will be sufficient evidence. Payments of cash are usually vouched for by returned checks, and as each one is examined it should be stamped or initialed in a manner to prevent its use at any future time.

3. Note any unsual payments or receipts of cash, and satisfy yourself that payments for wages are all genuine.

4. If a petty cash book is kept, it should be produced with a certificate of some person in authority acknowledging the correct-

ness of such expenditures. The auditor seldom checks the details thereof unless pilfering of cash is suspected.

5. If the books to be audited are of a corporation, then the charter, by-laws, minutes of meetings, and all other official records should be examined. In the case of a partnership the articles of agreement should be examined for details under partnership agreement. Note in each of the above cases the authority given to those who are to act as representatives of the concern. See that all requirements of the management are carried out to the letter, and see that statutory requirements are properly followed.

6. Test the footings of all books of original entry, and see that the proper totals are carried to the ledger accounts. When this is done, test the accuracy of the trial balance by a comparison with the ledger accounts.

7. Check all postings into the ledger accounts. If the audit is one which is somewhat limited, this may not be done, but in such a case it is advisable to make occasional comparisons throughout the book. The plan may tend to keep the bookkeeper from doing any indiscretion for fear of being detected by the method of indiscriminate checking which the auditor adopts.

8. In all cases when branch establishments are included in one business, be careful to examine into the mode of bringing the returns of work, accounts, and expenses to the head office.

9. Examine all Journal entries to see that the entries or adjustments are genuine. Examine the computations of entries contained in the Purchase and Sales Books occasionally to satisfy yourself that errors of omission or commission are not taking place.

10. Examine the accounts representing Bills Receivable and Bills Payable, and note any item of past due, renewed or dishonored bills or notes, and make a list of the names with securities, if any. Test the accuracy of the amounts supposed to be on hand or outstanding, by actual verification of the items represented.

11. In the matter of inventories or stock sheets, see that all schedules, sheets, and returns are extended, correctly footed, and

signed by the heads of departments or by competent authorities. Ascertain whether goods finished or in process are taken at cost price or otherwise, and verify by occasional tests of computations the accuracy of the same. If in a large concern, report whether an independent check clerk or valuer has verified the inventories as to price and quantities. It is not the auditor's duty to set a valuation on properties, yet he should satisfy himself that the values submitted are conservative and reliable.

12. See that all accrued items due to or by the concern are duly considered at the end of the year. These may consist of accrued interest, taxes, rent, wages, insurance, etc.

13. Examine with care any deeds, mortgages, bonds, stocks, or other securities that may be shown on the books, and see that they are actually on hand and properly valued. In the case of listed securities, the daily market quotations may be referred to for the correct valuations. Mortgages and other obligations should be carefully verified and compared with the book accounts.

14. See that all requirements and stipulations as called for by the partnership agreement, company by-laws, or directors have been complied with, and in connection with same see that all payments have been made and that all obligations have been duly settled.

15. In case fraud or trickery is suspected, only a detailed examination of the accounts and records can be relied upon to give evidence of it; and in such a case, the ingenuity of the auditor may be taxed to the utmost.

16. The loss and gain account should be examined carefully, and in doing so the entire scheme of income and expenditures will be involved. See that the allowances for losses, depreciation, wear and tear, deductions, etc., are considered, and that gains are not inflated by overvaluation of property, inflation of sales, capitalization of expenses, etc.

17. In examining the Balance Sheet, see that it represents a true condition of the company at that date, and that proper division of property, profits, etc., is made in accordance with the requirements of the Board of Directors. See that accounts re-

ceivable and sundry debts are properly classified and that allowance has been made for doubtful or bad accounts.

18. Examine the Stockholders' Register to see that it is in proper condition and that all payments on account of stock have been made. See that all transfers are made and recorded, and that the stock outstanding agrees with the amount authorized as shown by the books and the balance sheet.

19. Ascertain whether there are any contingent liabilities, and present a schedule of such to the directors at the time of making the report.

20. In many cases the auditor is required merely to examine into some particular feature of a business, as the stock ledger, petty cash accounts, book accounts, payroll account, customers' accounts, revenue accounts, etc., in which case he confines his efforts to the requirements of the work under review. It is necessary, however, under such conditions to see that the figures certified to are properly authenticated by the balance sheet of the general books.

To become a successful auditor one must have had experience in the work; but the person who will study, observe, and find out how others do things can prepare himself to conduct an audit satisfactorily. The young auditor should not pretend to know too much, and when an audit is undertaken for the first time, he should get his bearings before attempting any definite work.

EXERCISE 57

Auditing and Investigations

1. Your Bills Receivable account shows a balance of $7892.50. How would you proceed to satisfy yourself that this amount is correct? Explain in detail.

2. You are engaged to take charge of a set of books which has been in the hands of one bookkeeper for the past three years. The Bills Payable account shows a balance of $5900. How would you prove the accuracy of this account?

3. The capital of a firm of two partners is $20000. Your statement for the year shows that the firm has made a net profit

of $987.63, after paying partners' salaries of $1800 each. They insist that you have made a mistake, and that the net profit should be at least $2500. What is likely to have caused this error, and in reviewing the work what details should receive your attention?

4. In preparing the annual statements how should each of the following be valued?

(*a*) Deposit in a Savings Bank.

(*b*) Insurance premium prepaid.

(*c*) Taxes and other rates prepaid.

(*d*) Office furniture.

(*e*) Merchandise which has greatly increased in price since it was purchased.

(*f*) Investment in Railroad bonds.

5. A certified public accountant has been engaged to audit your accounts for the past year. What preparations should be made by you to facilitate as far as possible the work of the auditor?

6. You have taken charge of a set of books in which everything seems to be correct. The finished trial balance is before you, and the cash balance, with proof and bank reconciliation, is properly shown.

In case the proprietor asked you to satisfy yourself that everything is correct, what would you examine, and how would you proceed?

7. The Cash Book has been closed, and shows a balance of $3982.45. How would you prove the accuracy of this amount?

8. How would you audit the Cash Receipts as shown by the Cash Book in order to prove that the entries are correct, and that the amounts have all been received? How would you determine whether or not all receipts of cash have been recorded?

9. How would you audit Cash Payments? How would you satisfy yourself that all payments have been made as recorded?

10. Your Cash Book shows a balance on hand of $32.64, your Check Book shows an overdraft of $68.28, while the Bank Pass Book shows a credit balance of $75.85. How can such a condition exist? Make a statement reconciling these amounts.

11 Your Cash Book shows a credit balance of $11.25, you

have cash in the petty cash drawer, \$16.80, an overdraft per Check Book of \$111.25, and a credit balance per Bank Book of \$67.55. An exchange of checks for \$100 had been made with a friend, for your accommodation. Your check is postdated, but his has already been deposited by you in the bank, the only record of same being on the Check Book.

Reconcile the above, and make some form of statement setting forth the details.

The petty cash was drawn out of the bank by check to provide change for petty expenses, and is presumed to be in the hands of the petty cashier. The imprest system is in use, and \$16.80 is the unused balance of the fund.

12. The accounts receivable of a business, consisting of nearly 300 accounts, aggregate \$17540.95. How would you prove the accuracy of this amount?

13. The accounts payable, consisting of about 40 accounts, aggregate \$8624.90. How would you prove the accuracy of this amount?

14. The Expense account for the year shows a debit of \$6824.30, and a credit of \$358.35. How would you prove whether or not these amounts are correct?

15. What are Errors of Omission? Errors of Commission? Errors of Principle? Technical Errors? Give examples of each.

16. Explain the duties of a bookkeeper, of an auditor, and of an accountant.

17. What is the object of an audit of the books of a corporation? Of a partnership? What is an "Internal Check"?

18. On inquiry you are told by the bookkeeper that he has not been able to prove his cash for a year, and that he thinks it is short. What suggestions would you make that would be of help to him in keeping up to date, and in taking care of the cash?

19. Many business concerns make daily deposits of all cash received, and make all payments by check. What advantage is to be gained by this plan? How should small petty expenses be provided for under such conditions?

20. In examining the statement of petty cash payments for the past month, how would you satisfy yourself that they were all genuine?

EXERCISE 58

Set to be Worked. Manufacturing and Trading Business

General and Subordinate Ledgers — Accounts transferred to New Ledgers

Enter the following data and complete the work for the month ending June 30, at which time the books are to be closed and financial statements prepared. Use General Ledger (bound); Sales Ledger (cards); Purchase Ledger (loose-leaf); Cash Book (bound), containing columns on the Dr. side for Sundries, Accounts Receivable, Cash Discount Dr., Bills Receivable, and Balance; on the Cr. side for Sundries, Accounts Payable, Cash discount Cr., Bills Payable, Expenses; Bill Book, used as a *principal* book; Petty Cash Book (imprest system), with special columns for Stamps and Stationery, Office Expenses, Petty Expenses; Sales Sheets (in duplicate), or regular sales book; Weekly Abstract Sales Sheet; Purchase Book; Journal. Cash receipts are to be deposited each day (the following morning) in the National State Bank, and all payments are to be made by check except petty expenses. Keep a bank book into which shall be entered all deposits and all withdrawals, giving check numbers. This book may be similar to a pass book. The student should rule up the necessary blanks, forms, etc., in cases where suitable forms already prepared cannot be had. If sales sheets are not to be had, the first one only may be made in duplicate.

JUNE 1, 1908. The Superior Leather Company has been organized for buying, finishing, and selling leather goods of all kinds. Its Authorized Capital consists of Common Stock, $100000, and 7% Cumulative Preferred Stock, $100000. One quarter of each kind of stock has been retained for future disposition, and three fourths are in the hands of stockholders. You are engaged as bookkeeper for the firm and have been asked to transfer the accounts, which are all contained in one ledger, to the new ledgers which have been provided for the purpose. The books were properly closed Dec. 31 preceding, and are now in balance as indicated by the trial balance which follows:

Trial Balance, May 30, 1908

	Capital Stock, Common,	$100000.00
	Capital Stock, Preferred (7% Cumulative),	100000.00
$25000.00	Unsubscribed Stock, Common,	
25000.00	Unsubscribed Stock, Preferred,	
	Surplus,	15000.00
	Undivided Profits,	4560.00
42840.00	Land and Buildings,	
14575.50	Machinery, Tools, and Motors,	
10000.00	Goodwill,	
4850.00	Bills Receivable (including Bills Discounted),	
18925.30	Accounts Receivable,	
	Bills Payable,	13500.00
	Accounts Payable,	9875.65
8595.20	Balance in Bank,	
50.00	Petty Cash Fund (Imprest System),	
	Bills Discounted,	2600.00
	Bank Loan,	2500.00
	Reserve for Bad Debts,	1240.00
3600.00	Furniture and Fixtures,	
17840.30	Merchandise (Inventory, Jan. 1, 1908),	
198625.10	Purchases,	
	Sales,	235910.45
1120.40	Cash Discounts,	3595.70
1561.20	Returned Sales,	
5000.00	Factory Expenses,	
10173.90	Selling Expenses,	
77827.65	Wages,	
1291.30	Freight Inbound,	
692.90	Freight Outbound,	
12000.00	Salaries,	
5375.50	General Expenses,	
237.70	Stamps and Stationery,	
194.30	Office Expenses,	
87.95	Petty Expenses,	
173.80	Interest and Discount,	
3043.80	Insurance and Taxes,	
100.00	Advertising,	
$488781.80		$488781.80

The Accounts Receivable are as follows:

Valpey Shoe Co., Detroit, May 24, net 30, 2/10,	$868.30
Walkover Shoe Co., Philadelphia, May 14, net 30,	1237.96
E. F. Wood & Co., Providence, May 28, net 15, 2/10,	1592.80
A. A. Gray & Co., Detroit, May 28, net 30,	3577.42
Hale Leather Co., Boston, May 22, net 30, 2/10,	1618.35
Montgomery Ward & Co., Chicago, May 20, net 30, 2/15,	719.83
Regal Shoe Co., New York, May 28, net 30, 2/10,	3295.28
Lantz & Harris, Cleveland, May 1, net 60,	2834.24
Hamilton Brown Shoe Co., St. Louis, May 26, net 30, 2/10,	3181.12
	$18925.30

The Accounts Payable are as follows:

Traugott Schmitt & Co., Detroit, Balance due,	$3829.72
J. Russell & Co., City, May 20, net 30, 2/15,	1763.98
Vincent Leather Co., St. Louis, May 26, net 30, 2/10,	2112.40
Western Leather Co., Chicago, May 15, net 30,	870.35
Louisville Trading Co., Louisville, Ky., May 11, net 60, 1/30,	527.36
Harrisburg Tanning Co., May 28, net 30, 2/10,	771.84
	$9875.65

The bills discounted consist of two notes that have been discounted at the bank, but are not yet due. They are from Simms Bros. & Kern, $1500, due June 10, and Thompson Rose & Co., $1100, due June 15. Other notes on hand are from Jones & Lehman for $1000 at 3 months, due June 20; from J. R. Sheppard Shoe Co., for $1250, made May 12 for 2 months and indorsed by John Phelps. Bills Payable consist of note favor of American Stock Co. for $5000, due June 20, with interest at 6% for two months; and note favor of Armour Packing Co., for $8500, at 3 months, dated May 1, at 6% interest.

Transactions for the month of June are as follows:

JUNE 1. Sold Montgomery Ward & Co., merchandise, $1063.20, net 30, 2/10, and to E. F. Woods & Co., merchandise, $937.26, net 30, 2/10. Received check from Hale Leather Co., full of invoice, May 22, less discount.

JUNE 2. Sold Regal Shoe Co., merchandise, $1438.25, net 30, 2/10, and to Valpey Shoe Co., merchandise, $927.32, net 30, 2/10. Paid for petty expenses, $5.20, and for postage, $11.50. Gave John Swan, check, $16.40, for repairing broken machine. Paid Wm. H. Haskins & Co. for books and supplies, $85, per bill of 1st.

JUNE 3. Received check from Valpey Shoe Co. for invoice of May 24, less discount. Paid Traugott Schmitt & Co., $2500 to apply on account. Paid cash for stationery, etc., $7.50, and for office expenses, $10.12. Sold Hamilton Brown Shoe Co., f. o. b. destination, merchandise, $2605.16, net 30, 2/10; paid freight on same, $55.33.

JUNE 4. Purchased from Harrisburg Tanning Co. goods per invoice, $1530.60, net 30, 2/10, and sent them check for $500 to apply on same. Ordered goods of Western Leather Co. to be shipped at once, and inclosed check to apply on same, $500. Paid J. Russell & Co. in full of account to date. Received check from Montgomery Ward & Co. in full for invoice of May 20, less discount.

JUNE 6. Sent check to Vincent Leather Co. in full of account, less discount. Purchased of J. Russell & Co. goods invoiced at $2036.24, net 60, 3/15, 2/30. Sold Lantz & Harris merchandise, $1895.16, net 30, 2/10; they have sent check for $1000, to apply on invoice of May 1, the balance to be extended to the equated date. Paid factory expenses for the week by check, $53.50, and wages to workmen, $3800. Paid general expense bills in cash, $10.40, and office expenses, $3.40. File petty cash report for the week and draw a check to replenish the fund. Post all entries, close both cash books, and make abstract sales sheet.

JUNE 8. Received check from Regal Shoe Co. for invoice of May 28, less discount; also a check from Hamilton Brown Shoe Co. for $3117.50, for invoice of May 26, less 2 % discount. The discount period has passed and you have credited the amount to their account and have asked them to send the balance. The goods ordered of Western Leather Co. on the 4th have arrived, invoiced at $2137.62, net 30, 2/10.

JUNE 10. Sold to Hale Leather Co. merchandise, $927.39,

net 60, 2/15, 1/30; and to A. A. Gray & Co. merchandise, $1950, net 30, 2/10. E. F. Woods & Co. are short of cash but wish to discount their invoice of May 28. They have done so by sending their thirty-day note dated the 7th for the required amount, with interest at 6% included in the face of the note. The note of Simms Bros. & Kern due to-day has been paid at the bank.

JUNE 11. Purchased of Louisville Trading Co. goods, per invoice, $1168.50, net 30, 2/10; sent them check for amount of invoice of May 11, less discount. Sent Harrisburg Tanning Co. check for invoice of May 28, less discount. Paid cash for matches, 35¢; brooms, 60¢; Box soap, 30¢; car fares, 25¢; postage stamps, 11¢; floor rug, $12. Gave Richmond & Backus Co. check for $125 for new roll-top desk for office, delivered on the 9th. Lantz & Harris have notified you of damaged goods to the extent of $42.90 in your shipment of the 6th. Sent them credit slip for the amount. Sent J. Russell & Co. check for $500, to apply on invoice of 6th.

JUNE 13. The Harrisburg Tanning Co. has notified you that your remittance of the 11th did not arrive within the discount period and that they cannot allow the discount. Sent them a check for the balance due. Paid freight bills to date on goods received, $212.30; also petty expenses, $13.41, and sundry office expenses, $17.94. Paid the Free Press Co., advertising bills for May, $165.50. Paid wages of workmen, $3800, and for extra labor around the factory, $52.30. Sent Western Leather Co. check for invoice of May 15. File petty cash report and draw a check to replenish the fund. Post all entries, close both cash books, and make the abstract sales sheet.

JUNE 15. Discounted at the bank the company's 60-day note for $10000, at 6% interest. Paid salaries to officers and office employes for one half month to date, $1200, and to salesmen, $500.00; also for salesmen's expenses, $310.40. Purchased for cash, new motor truck for $3500, and additional tools, $600; paid for general expenses in repairing office and grounds, $75, and for repairs to machinery, $112.50. Sold Walkover Shoe Co. merchandise, $2860.40, net 30, 2/10; and received from them check in full of invoice of May 14th. Sold A. A. Gray & Co. merchandise, $2349.37, net 30, 2/15, and paid freight

on same, \$79.18. The note of Thompson Rose & Co. for \$1100 has been paid to-day at the bank. Discounted at the bank note of J. R. Sheppard Shoe Co. and received credit of the proceeds. Part of the bank loan, consisting of note for \$1200, has been paid by check. Hereafter, unless otherwise instructed, you are to pay and receive payment for all bills within the best discount periods.

JUNE 17. E. F. Woods & Co. have notified you that they have become incorporated, and that the name of the company is the E. F. Woods Company. Sent checks for gas and electric light bills, \$36.11, and for telephones, \$24. John Fernley, whose account for \$340.50 had been closed off last year as worthless, has given you his 90-day note for the amount, indorsed by his brother Henry, who is reliable. Purchased goods of Vincent Leather Co., \$2600, net 60, 2/10, 1/30; and from Harrisburg Tanning Co., \$1349.31, net 30, 2/10.

JUNE 18. Sold merchandise to Lantz & Harris, \$1718.64, net 30, 2/10; to Hamilton Brown Shoe Co., \$735.24, net 30, 2/10, 1/15; and to Chicago Supply Co., \$2460.90, net 30, 2/10, on account of which they have sent certified check for \$1000. Paid subscription to Bradstreet's, \$75, and to Credit Men's Association, \$25.

JUNE 20. Your note for \$5000 and interest falling due to-day has been charged to your account in the bank. Paid cash for petty expenses, \$9.42, for postage and stationery, \$18.08, and for office cleaning, \$8.50. Paid for sundry factory expense, per order of superintendent, \$179.40, and for advertising, \$55. Paid wages of workmen, \$3800; and for painting part of the buildings, \$60. File reports, close cash books, etc., for the week, and replenish the petty cash fund.

JUNE 22. Received from A. A. Gray & Co. \$500, to apply on invoice of May 28; the balance is to run until the equated date, which you will make note of in the account. Purchased of Traugott Schmitt & Co. goods, per invoice, \$1328.60, net 30, 2/10. Sent them check for \$400, to apply on same. Paid \$10 for the service of a watchman during the illness of the regular man.

JUNE 25. Sold Levy & Barnum, Baltimore, merchandise,

$1200, net 30, 2/10. Received with the order check for $400 as part payment, also a certified abstract of their financial standing. Lantz & Harris have notified you that goods in your last shipment were damaged to the amount of $118.40, and you have to-day sent them a credit note for the amount. File a claim against the railway company for the damage incurred.

JUNE 27. Received from Lantz & Harris check in full of account, less discount; also a request to duplicate their last order on the same terms. You have done so and they have been shipped with freight prepaid, as an accommodation, $16.32. Cash sales for past two days have amounted to $250.75. Paid cash for petty expense, $16.45, and for postage stamps, $10. Paid for factory expenses, $38.40, and for repairs to plant, $51.30. Paid wages to workmen per payroll, $3800. File reports, close books for the week, and replenish the petty cash fund.

JUNE 29. Paid freight bills on goods purchased, $132.50, also bill for repairs to motors, $210. Purchased of J. Russell & Co. goods, per invoice, $1536.25. Gave them check for $336.25 to apply on same, and a 60-day note for the balance.

JUNE 30. Paid salaries for one half month, $1200; salesmen's salaries, $500, and salesmen's expense, $248.90. Paid for renewal of an insurance policy on factory building for one year from June 1, $200. Paid for fuel and supplies, $450.

Post all entries, make a trial balance of each ledger, and close the general ledger by journal entries. Prepare financial statements, consisting of Manufacturing Statement, Trading Statement, Loss and Gain Statement, and Balance Sheet.

Show a statement of the bank account, presuming that all cash had been deposited on the evening of June 30; and prepare a bank reconciliation statement, presuming that the last two checks are outstanding, also the check given to J. Russell & Co. on the 29th.

Inventories:

Merchandise unfinished,	$49480.20
Merchandise finished,	81725.25
Wages accrued for 2 Days,	1266.67
Insurance unexpired on Plant,	312.14

Insurance unexpired on Goods,	85.30
Insurance unexpired on Furniture,	22.45
Taxes unexpired,	208.17
Accrued interest on Notes Payable,	x
Prepaid discount on Notes Receivable discounted,	x
Stamps and Stationery,	18.50
Fuel and Supplies,	320.00

Set aside 1 % of accounts receivable as a Reserve for Bad Debts, also $350 for outstanding expense bills. Write 5 % off buildings (valued at $32840) as a Reserve for Depreciation, also 8 % off Machinery, etc., for the same purpose.

EXERCISE 59

Review Questions

1. Why do so many firms keep so-called single entry books?

2. Would a single entry set of books do for a corporation? Why?

3. You are to change a set of books from single to double entry. From what sources would you collect information necessary to enable you to do so?

4. What is a Voucher Register? What are its advantages and disadvantages?

5. Rule up a suitable voucher for a foundry having three departments.

6. Do you favor a voucher-check combination? Why?

7. How would you change a set of books from double entry to single entry?

8. Do you favor a loose-leaf system of books and records for an office? Why?

9. What is the card system? What are its merits and demerits?

10. What is a *card index?* Self-indexing Ledger? Ledgerette? Manifold Sales Record? Triplicate Sales Sheets?

11. What is an Account Sales Register? Consignment Ledger? What advantage is gained by the use of either of these books?

12. What is the best way of keeping account of petty cash payments?

13. How should a petty cash book be ruled? What is the *imprest* system of keeping petty cash?

14. When several ledgers are kept, as General Ledger and subordinate ledgers, what should each contain?

15. If both General and Private Ledgers are kept, what should each contain? How may a trial balance be taken off each?

16. What is a Customers' Ledger? Creditors' Ledger? Debit Ledger? Credit Ledger? Petty Ledger? Contract Ledger?

17. What is a *controlling* account? In what ledgers should it be used?

18. How do the books for a manufacturing business differ from those of a trading concern? Name the different books required by each.

19. What are the elements that enter into the cost of a manufactured article?

20. What is *prime cost?* Material? Stores? Supplies?

21. What are Factory Expenses? Office Expenses? Manufacturing Expenses? Administrative Expenses? Overhead Expenses? General Expenses? Selling Expenses?

22. Distinguish between Labor and Salaries; also between productive and unproductive labor.

23. What is a Cost Ledger? Stores Record? Shop Order?

24. A company has a Manufacturing account, Trading account, and Profit and Loss account; when is each opened and what should each contain?

25. At the end of the year how would you inventory raw material? Finished stock? Goods in the process of manufacture?

26. What is *goodwill?* What should be done with *goodwill* account at the time of preparing statements?

27. Explain: Bonus, Franchise, Patent, Organization Expenses, Stock Premium. How should each of these be inventoried at the end of the year?

28. May a corporation sell its stock or bonds at a discount? If so, how would such discount be shown on the books?

29. What are the liabilities of stockholders of a corporation? Of the directors?

30. A stockholder who purchased his original shares for half price donates half of it back to the corporation to be sold to raise working capital. If the donated stock is again sold at a discount, does the original purchaser remain liable for the shortage?

GENERAL PROBLEMS

1. From the following information find the amount of cash disbursements:

The ledger accounts show the following balances: Capital, $3486.50; Mdse., Dr. $2530.90; Fixtures, $400; Bills Receivable, $860.40; Bills Payable, $1564.80; Accounts Receivable, $1123.20; Accounts Payable, $564.90. No cash account is kept in the ledger. Cash receipts were $3165.50. How much were the disbursements?

2. Show Journal Entries for the following:

MARCH 4. Received from D. James, Sheffield, England, merchandise invoiced £740 12*s.* 6*d.*

MARCH 8. Remitted D. James on account a Bill of Exchange for £600 when exchange is at 4.873. What balance should you show in your trial balance for D. James?

3. Adell and Brown are equal partners. They wish to dissolve partnership and agree to divide their assets and liabilities between them. The ledger accounts stand as follows: Adell, Dr. $1300, Cr. $4500; Brown, Dr. $1425, Cr. $4500; Expense, Dr. $1350, Cr. $160; Mdse., Dr. $23400, Cr. $29950; Commission, Cr. $2033.

The inventory of merchandise, which Brown takes, is $4650; cash on hand, which Adell takes, $1395; bills receivable, which Adell takes, $3594; accounts receivable, which Brown takes, being allowed a discount of 16 % for bad debts, $2347; accounts payable, which Brown assumes, $1985; store and lot, which Adell takes, $9450; bills payable outstanding, which Adell assumes, $1133. Determine the amount that one must pay the other in cash, and make all adjusting entries on the firm's books.

4. On June 7, 1908, when balancing cash you found that you were over $153.75. Part of it was due to the following, which you corrected: Duplicated an entry on the credit side for $12, paid for postage; an error of $10 in addition on the debit side,

decreasing the total. Not being able to locate any more errors, you make necessary entry to make cash balance. On June 15 you recalled to mind a cash sale of merchandise, $14.50, made on June 7, which was not recorded. On July 7, A. B. Potter returned your statement, saying he paid $75 on account June 7, for which you had failed to credit him. Make all necessary entries to adjust above-mentioned items.

5. Your single entry books show this information: Merchandise, $1500; Cash, $2500; bills payable, $1200; J. Smith, Dr. $500; A. Roberts, Cr. $1500; bills receivable in safe, $1000; a note in bank for collection, $150; a protested note of C. E. Butcher, $200, on which fees of $2.06 have been paid; a shipment to Baltimore on your account, $850, from which no returns have been received. You owe $725, as proceeds of a consignment.

You conclude to admit Thos. Corey as an equal partner, he investing $3500, and to change the books to double entry. At the end of the year your ledger accounts show: Cash, Dr. $8500; Mdse. (Inventory, $2750), Dr. $10600; Cr. $12200; Bills Receivable, Dr. $1800; Loan Account (Accrued Interest, $150), Dr. $2000; George Francis, Dr. $275; Discount and Interest, Cr. $75; Expense (Inventory, $75), Dr. $150; Rent, Dr. $200; Mortgage Payable, Cr. $3000; Real estate (Inventory, $4000), Dr. $4125; Accounts Payable, Cr. $5597.94. Write the entries, changing the books to double entry. Determine the present worth of each partner, interest on the mortgage, at 5 %, being 6 months in arrears.

6. From the following data concerning the Spooner Manufacturing Co., prepare a Balance sheet and a Revenue Account. The Revenue Account to show the three divisions of Trading Account, Loss and Gain Account, and Appropriation of Profits.

Goods on hand from previous year, $12000; Purchases, $70000; Sales, $84000; Expenses, $2000; Wages, $6400; Cash on hand, $20; Cash in bank, $2130; Salary, $1250; Rent, $900; Commission paid, $75; Return Sales, $750; Return Purchases, $400; Discount on Sales, $400; Discount on Purchases, $560; Machinery Cost, $11000; Accounts Receivable, $8000; Bills Receivable, $2000; Accounts Payable, $7000; Bills Payable, $850;

Interests on Deposits, \$100; Office furniture cost, \$600; Repairs to Machinery, \$50; Freight, \$200; Duty, \$150; Advertising, \$1200; Discount costs, \$200; Gain carried forward from last year, \$1415; Capital Stock, \$25000.

It is proposed to pay a dividend of 10% on the Capital Stock, to carry \$1000 to Surplus Account, and to leave the balance to the credit of Loss and Gain.

Inventories: Mdse. on hand, \$14600; Advertising prepaid, \$50; Wages owing, \$200; Rent unpaid, \$100. Allow 5% for depreciation on Machinery, 10% on Office Furniture, and 7% for possible loss on accounts receivable.

7. Make Journal Entries for the following:

(*a*) You hold a note for \$300 against D. Crummy due to-day, he pays cash \$150, and gives a new note for \$156, to cover balance and interest.

(*b*) Your note favor of Geo. Wiggins for \$200 is due to-day. You pay him \$100 in cash, and he agrees to wait 15 days for the balance.

(*c*) Hawkins owns a business in which his capital amounts to \$3000. He sells a half interest to Peterson for \$2000. Make the entry in Hawkins's Journal.

(*d*) The profits of the Jas. S. Small Company for the year ending Dec. 31 amount to \$3500. A Dividend of 8% on a Capital of \$30000 is declared, \$1000 is carried to Surplus account, and the balance is carried forward.

(*e*) The Accounts Receivable amount to \$8466.70. Provide for 5% of the amount for possible bad debts.

8. On January 1, 1905, A. Smith, E. Harris, and H. Dunning entered into a partnership, investing respectively \$8000, \$6000, and \$4000, agreeing to share gains and losses equally, and to allow interest at the rate of 6% on all investments, and to charge interest at the same rate on withdrawals.

On April 1 Smith withdrew \$1000, and on June 1 withdrew \$1000. On Sept. 1 he invested \$3000.

On May 1 E. Harris made an additional investment of \$3000, and on Oct. 1 withdrew \$1500.

On March 1 H. Dunning withdrew \$500, and on Aug. 1 invested \$1000.

At the end of the year no settlement of the interest is made until after the net loss of $3600 has been divided and entered up. The interest is then adjusted.

Show the Partners' accounts after such adjustments properly closed, with the balance brought down for the next year's business.

9. Journalize the following:

Bought of Smith a note for $2400, which he held against Rogers, at a discount of 10 % on the amount. It had interest accrued, $200. In payment you gave a draft at 10 days' sight on Thomas Brown for $2000, allowing $20 discount on same, your note at ten days for $200, and your check to close the transaction.

10. A and B are partners. A's interest due him on capital invested is $220. B's interest due him on capital invested is $130. What is the journal entry to adjust the matter without passing through the Interest account or through the loss and gain account?

11. A and B form a partnership, A contributing $2500, and B $1500. They sell to C a $\frac{1}{3}$ interest in the business for $2000. How much of the $2000 will A and B receive respectively in order to make A, B, and C equally interested, their joint capital to remain $4000?

12. Simon and Luther started as equal partners in business without any capital. Simon invested skill, while Luther's credit enables him to borrow $1200 from Spencer. They are to pay interest at 5 % on the loan, which is secured by a judgment note. The note is to be paid out of the earnings of the business. Make the proper entries to open the books of the business; also for the payment of the note when due.

13. You have made the following errors in your books: 1. You sold Thomas Place merchandise amounting to $155.76; but you failed to enter it in your sales book. 2. You posted $123.76 to the credit side of Mdse. Account, which should be posted to the debit side of Store Fixtures. 3. A cash payment ($196.75) to Benson was posted $169.75. 4. You received from Mr. Evans his check for $125, which you entered in your cash book as $105 and posted it to his account. 5. You bought of Mr. Sikes mer-

chandise, $75, and posted it twice to the credit side of his account. Which side of the trial balance is the larger and how much?

14. You received from Jas. Fisher, Baltimore, to be sold on his account and risk, merchandise valued at $4525, with instructions not to sell at less than 20% profit. Paid freight, $35. Sold Wm. Sloan from the consignment merchandise, $2430. Sloan made a claim for damages amounting to $75, which you were obliged to allow. He then settled his bill. The value of the merchandise in your care having fallen in the market, you could not carry out Fisher's instructions and you advised him of this fact. He instructed you to forward the goods to Geo. Bush, New York, which you did, paying shipping expenses, $5.25. You then rendered an account sales to Fisher, sending him a bank draft in settlement; commission, 3%.

Make journal entries and state ledger accounts.

15. The Empire Manufacturing Company is being absorbed by the Wilson Manufacturing Company. The Company is to be taken over. Shares are worth par. Its assets go to the Wilson Manufacturing Company, and shares fully paid up are to be issued to the shareholders of the Empire Company. The Wilson Company is to assume the Empire Company's liabilities. The following is the Empire Manufacturing Company's statement. The subscribed capital is all paid up.

EMPIRE MANUFACTURING COMPANY

STATEMENT OF ASSETS AND LIABILITIES AT JAN. 1ST, 1909

Assets		*Liabilities*	
Cash on Hand,	$430	Bills Payable,	$4760
Real Estate,	2000	Accounts Payable,	2800
Bills Receivable,	2620	Paid-up Capital,	10000
Plant, etc.,	6200		
Mdse. Inventory,	5860		
Accounts Receivable,	450		
	$17560		$17560

Make the entries in the Empire Manufacturing Company's books.

16. The Harrison Manufacturing Company is incorporated with a capital of $1000000, divided into shares of $50 each.

Geo. Harrison, the founder, subscribes to 10000 shares, giving $100000 in cash and deeding to the company real estate worth $300000, with machinery and fixtures thereon worth $100000. A. Roberts subscribes to 2000 shares, giving to the company a patent right worth $75000 and cash for balance. A. Somers subscribes to 2000 shares and pays cash. George Jones, subscribes to 3000 shares and deeds to the company an adjoining lot valued at $50000; he also agrees to install in the plant engines and machinery worth $50000, and gives his personal note for balance. Balance of stock is held for future disposition. At the end of the year a gain of $66550 is shown, a dividend of 6% declared, and $15000 set aside to Surplus. Give entries.

17. Your ledger presents these facts: Capital Account, $2500; Cash, Dr. $1300; Mdse., Dr. $2100, Cr. $1675; Expense, Dr. $78.25; Bills Receivable, Dr. $650, Cr. $100; Bills Payable, Dr. $150, Cr. $1075; Accounts Payable, Cr. $1405; Accounts Receivable, Dr. $1175; Real Estate, Dr. $951.75; Loan Account, Dr. $350. Inventory: Mdse., $200; Real Estate, $900.

One year later, during which time you admitted a partner, who invested $2500, you find the following condition of affairs; Cash on hand, $10000; Bills Receivable (in safe), $1600; a protested note of A. Adams, $175, on which you paid fees, $2.06; Bills Payable, $1750; Loan Account, Dr. $350, on which no interest has been received since previous closing; Accounts Payable, $4950; Real Estate, $4000, in which the equity is $800; Merchandise, $600. Show the present condition of the business and the accounts of each partner.

The above business is incorporated under the title "The Hoe Company," with a capital of $10000, divided into shares of a par value of $50 each. You subscribe to 60 shares, your partner to 70 shares, A. Hall to 50 shares, and T. Scott to 10 shares. Your partner and yourself receive full-paid shares for your net interests in the old business. A. Hall pays 50% in cash. T. Scott pays ½ in cash and is credited with full payment in consideration of his services as attorney. At the close of the year a net profit of $1200 is shown, a dividend of 5% declared, and the balance placed to Surplus. Make all entries.

18. There are three partners, Brown, Green, and Black, who invest \$2000 each in a business. At the end of the year their accounts stand at \$1600, \$1200, and \$800 respectively to their credit. The business is wound up and the assets realize \$1800, after payment of all claims. Make necessary Journal entries and adjust partners' accounts.

19. How would you deal with the following?

(*a*) A remittance of \$2500 was received by mail, but the letter was unsigned.

(*b*) Ten days later you learned the name of the remitter of the above.

(*c*) J. D. Smith owes \$75.28 and sends you by post an express order for \$75 and 28¢ in postage stamps.

(*d*) A wheel burst in your factory, injuring a workman. You called a doctor. He sent you a bill for \$3.00.

(*e*) A new wheel was made in the foundry (part of your works), cost \$38.75; cost of placing same \$8.25 (this is done by men of the factory).

(*f*) You accepted a Bill of Exchange for £300 when exchange was at commercial par, but when due exchange was at \$4.87¼.

(*g*) Your firm gave \$100 to India Famine Fund.

20. Brown and Smith began business one year ago, investing \$3000 and \$2000 respectively, agreeing to share gains and losses according to investments. At the end of the year the books are in disorder and you are called in to open a new set. You have been supplied with the following information, which is supposedly correct:

D. Howard owes on account, \$200; and P. Smith, \$360. The firm owes on account, J. Henderson, \$1100; and H. A. Foster, \$600. You find Cash on hand, \$500; and Notes on hand, \$700; Taxes unpaid, \$25; Rent prepaid, \$150; Mdse. on hand, \$2700.

(*a*) Make entries in the Journal, which when posted will enable you to take a correct Trial Balance.

(*b*) After the books were opened you found that an invoice of goods amounting to \$350, bought from John Fraser on account, had not been entered at the time of purchase. Make the necessary Journal entry now.

21. Thos. Kelley began business on January 1, investing as follows: Cash on hand, \$120; on deposit in Bank, \$2500; Mdse., \$1200; Bills Receivable on hand, \$450, on which there is interest accrued, \$3.00; Accounts against A. D. Jones, \$500; and H. Barnet, \$260; Real Estate, \$3200, on which there is a mortgage of \$1000, with interest accrued, \$15. Kelley owes on account, \$310 to J. W. Wilson, and \$175 to P. J. Miller.

(*a*) Make the opening entry for a set of double entry books.

(*b*) Make the opening entry for a set of single entry books.

22. From the following information make Trading Account, Loss and Gain Account, and Balance Sheet for the year ending Dec. 31.

Bills Receivable on hand, \$3000; Accounts Receivable, \$7500; Bills Payable, \$2100; Accounts Payable, \$4600; Real Estate, \$6000; Plant and Machinery, \$8000; Rent and Taxes, \$600; General Expense, \$2000; Salaries, \$1500; Wages, \$600; Freight, \$150; Duty, \$200; Cash on hand, \$150; Cash in Bank, \$1800; Bad debts written off, \$140; Goods on hand at beginning of year, \$9500; Purchases, \$26000; Sales, \$40000; Interest paid, \$210; Furniture and fixtures, \$600. James Buckham, partner, invested \$10000, and withdrew \$1450; E. J. Cockburn invested \$14000, and withdrew \$1300; the Mdse. on hand is valued at \$9000; Rent unpaid, \$250; Insurance prepaid, \$110; Interest due on Bills Receivable, \$25; Wages due, \$115. Allow 10% depreciation on plant, furniture, and fixtures, and 5% for possible bad debts on accounts receivable. Gains and Losses to be divided equally.

23. Write up the account of Samuel Bennett in your Ledger, showing therein three debit and six credit entries with a balance remaining unpaid. Assume that these entries complete the page, and that the account is to be opened on a new page and two more entries made on each side of it. Both pages are to exhibit the best ledger work you are capable of doing.

24. Referring to the above question, open the same account by using two different styles of ledger rulings. Show the accounts balanced up and the difference carried down.

25. Explain the following expressions: Nominal Capital,

Goodwill, Treasury Stock, Collateral Security, Bad Debts, Reserve for Bad Debts, Warehouse Receipt, Organization Account, Preferred Dividend, Interim Dividend, Impairment, and Surplus.

26. A company with a fully paid capital of $50000 has an Impairment Account of $23000. It has been thought wise by the Directors to arrange to reduce the Capital to $25000.

(*a*) Give necessary legal steps.

(*b*) Give necessary Journal and other entries.

27. (*a*) Journalize the following transaction in Lloyd's books, and also in Henderson's books:

Lloyd sells Henderson, for $5000, a house and lot that stands in his ledger at $3500, which amount is made up of Cost, $3390; Repairs, $50; Taxes, $48; Insurance, for the year, $12.

Lloyd receives in settlement a 6% mortgage of $3000, with accrued interest $80.

He takes this mortgage at	$2600.00
It stands in Henderson's books at $3000, no entries having been made for interest.	
10 shares of Industrial stock, par value $100 each; the stock pays dividends of 10% annually. He takes this at $125 per share,	1250.00
Cash for balance,	1150.00
	$5000.00

(*b*) Referring to the previous question, Lloyd was receiving an annual rental for the house of $420, with annual charges as already given.

What did each man make or lose? Show ledger accounts.

28. A company through circumstances and bad management finds itself in this position:

Cash, Accounts, and Stock,	$25000	Creditors,	$10000
Uncalled Capital,	25000	Capital Stock,	50000
Profit and Loss Account,	15000	Surplus Account,	5000
	$65000		$65000

Permission has been obtained to reduce the Capital Stock to $30000 upon the uncalled capital being paid in. Show the re-

quired entries, and recast the Balance Sheet on the supposition that these proposals have been effected.

29. Brown desires to purchase a going concern having the following Assets:

Machinery,	$80000.00
Book Accounts Receivable,	48000.00
Inventory, Merchandise,	42000.00

and the following Liabilities:

Book Accounts Payable,	30000.00
Bills Payable,	30000.00

The purchase price agreed upon was $ 100000.00 in cash.

It was discovered immediately after taking over the concern that, through clerical errors in taking stock, the actual value of the stock was but $39500.00.

It was also discovered that $3800.00 of the accounts receivable were valueless, as the bookkeeper had neglected to make proper credits for discounts allowed.

(*a*) Give opening entries for the new books, taking into consideration the above errors. (*b*) Show the Balance Sheet after the adjustments are made. (*c*) Give the opening entries in case the same books are used.

30. Notes receivable have accrued interest amounting to $88.42, and notes payable to $28.36; notes under discount at the bank have interest prepaid netting $48.73; an overdue note of $800 in your possession has interest accrued from maturity, $11.18; a mortgage held by you has interest accrued $44.10, and you hold bond coupons of $120 to fall due in two days; a company in which you hold stock has declared a dividend, and your share, $80, will be received in ten days; your insurance premium of $45 will be due in one month; your telephone bill for $8, and your gas bill, which usually amounts to between $5 and $8 per month, will be received in a few days.

What should be done with the above items providing the fiscal year has just ended? Give entries to adjust.

31. A company is to be incorporated to manufacture a new style of scissors, the patent of which is owned by R. J. Bennett

and valued at $30000. The capital of the company is to be $50000, of which R. J. Bennett has subscribed for $20000, C. W. King, $10000, and A. R. Lucsa, $10000. Bennett is to receive in payment for his patent, cash, $10000, and full-paid stock for $20000; King and Lucas have paid the first installment of 50% and will pay the balance in one month. Expenses of organizing amounted to $290 and have been paid by Bennett, who is now to be reimbursed out of the company's funds.

Half of the remaining stock has been sold for $8000, and the remainder for $10000. Make all the necessary entries.

32. A company having a capital of $50000 all subscribed and paid up in 500 shares of $100 each has had its capital seriously impaired by losses until it is now only $27500, the amount of reduction of capital being in Deficiency Account. It is proposed to reduce the capital stock to $25000, reducing the shares to $50 each, and leaving $2500 of surplus in Surplus Account. Supplementary Letters Patent were granted, reducing the capital to 500 shares of $50 each. Make the entries. The shareholders are D. Melville, C. P. Creighton, J. C. Ryan, W. F. Wolfe, and Fred Kilbourn, each holding 100 shares of $100 each.

33. A company is to be organized for which it will be necessary to secure special legislation. The capital stock is to be $80000, of which $50000 is taken up by the corporators, J. P. Vick, E. H. Newman, J. J. Douglas, M. Forhan, and A. J. Frost, each $10000 to be paid up as called by the Directors. A hundred shares of stock fully paid up are given to the President to use as he sees best in the organization of the company. It is placed entirely at his disposal, and subject to transfer. He may sell it and use the proceeds as he thinks best around legislative halls, or he may transfer the shares direct without consideration. The incorporators are not supposed to know, and never ask anything about what was done with it. The remaining $20000 of stock is to be reserved in the meantime. The incorporators have paid in the first call of 10 per cent.

Give the opening entries on the books of the company.

34. Thomas Gordon is the proprietor of a mercantile business

that is to be converted into a Joint Stock Company, having a capital of $40000 in 400 shares of $100 each. He is to take $20000 of the stock, payable in assets of his business, the company to take over all his assets and assume his liabilities and pay him all that they net the company in cash over the amount of his stock. The other shareholders, John Rutherford, D. Creighton, Jos. Lang, and Jas. H. Little, to take up the remainder of the stock, $5000 each, and pay it in cash.

THOS. GORDON'S ASSETS AND LIABILITIES, JAN. 1, 191–

Assets		*Liabilities*	
Mdse. per Inventory,	$12500	Bills Payable,	$ 2000
Furniture and Fixtures,	500	Accounts Payable,	2800
Bills Receivable,	10000	Balance, Excess of Assets	
Accounts Receivable,	15000	over Liabilities,	33200
	$38000		$38000

Open new books. Make entries for (*a*) Gordon's assets, (*b*) his liabilities, (*c*) for the other stock taken up.

35. From the following Trial Balance make out Trading and Profit and Loss Statements and Balance Sheet as on Dec. 21, 19—.

John Smith, Capital Account,		$6700.00
John Smith, Drawings,	$1250.00	
Traveling Expenses,	500.00	
Trade Expenses,	300.00	
Rent and Taxes,	850.00	
Interest and Discount,	125.00	
Purchases,	10000.00	
Sales,		16250.00
Stock on hand, Jan. 1, 19—,	2732.00	
Furniture and Fixtures,	100.00	
Salaries,	1860.00	
Cash on hand,	425.00	
Cash in Bank,	3150.00	
Accounts Receivable,	4260.00	
Accounts Payable,		2602.00
	$25552.00	$25552.00

Inventory of Mdse. on hand Dec. 31, 19—, $3260.00.
Accrued Rent and Taxes amount to $63.00.
Accrued Salaries amount to $165.00.

36. An investor holds 5 coupon bonds payable as follows: Number One at the end of one year; Number Two at the end of two years; Number Three at the end of three years; Number Four at the end of four years; and Number Five at the end of five years. The amount paid to him annually for interest and to retire one bond is $1000. If the rate of interest is 5% per annum, find the face amount of each of the bonds and how much of each of the payments is for principal and how much for interest. Give necessary entries.

37. A block of Bonds for $10000 paying interest at 4% semiannually for 30 years is bought by an investment company at 96.65 and accrued interest, thus yielding the purchasers 4¼% on their investment. Interest accrued at time of purchase is $100. Show by journal entries the necessary record of this purchase, as well as entries when first payment is received by the Company.

If same bonds had been bought at $103.50, yielding 3¾%, with $100 accrued interest, show corresponding entries.

38. Design a form of Cash Book providing for Bank account and Cash discounts received and allowed, in a business where Bought, Sold, and General Ledgers are used on the self-balancing system. Arrange for columnar postings to several General Ledger Accounts, and also design the form so that actual cash on hand can be ascertained by an addition of only one column on each side of the book. Illustrate by six entries on each side and balance book as at end of month.

39. (*a*) A, Capital, Cr. $2500; B, Capital, Cr. $2500; Cash, Dr. $11700; Cr. $9969.70; Mdse., Dr. $17897, Cr. $16470.80; A, Withdrawals, Dr. $250; Bills Receivable, Dr. $217.90, Cr. $125; Expense, Dr. $180; Bills Payable, Dr. $470.86; Cr. $600; Real Estate, Dr. $3117, Cr. $22; Insurance, Dr. $257.50; Commission, Cr. $690; Rent, Dr. $475; Loss and Gain, Dr. $3000; Accounts Payable, Cr. $4687.76.

Inventory and other data: Mdse., $525; real estate, $2200.

The bills receivable are considered doubtful; create a reserve. It has been found that commissions account was credited with \$200 too much; the amount is owing as the proceeds of goods sold at the time of closing the books. Rent is in arrears for three months at \$150; expense bills on hand unpaid, \$210. Determine the present worth of each partner and make statements.

(*b*) In order to place the above business on a firm financial basis, the following course is pursued: C was admitted as a partner, making a cash investment of \$2000; a mortgage was created on the real estate for \$1800. At the close of the business year, the ledger accounts and other facts are as follows: Cash on hand, \$2675; Mdse. Dr. \$525; Bills Receivable, \$1875.50; Real Estate, Dr. \$2200, subject to the mortgage; notes outstanding, \$475.25; Accounts Receivable, Dr. \$3680.40; Rent, Dr. \$900; rent in arrears for 3 months at \$150; unpaid expense bills (also unentered) on hand, \$60; during the year salaries were paid, \$1200; Expense, Dr. \$562.50; merchandise purchases for bills paid, \$18767; merchandise purchases for bills unpaid, \$1567.50. Merchandise Inventory, \$4300. What was the amount of the sales? Gains and losses are to be divided equally. Make statements and determine the present worth of each partner.

40. (*a*) A Company borrows \$5000.00 from its bankers, for which it gives its own notes for equal amounts at 3 and 6 months, both bearing 6% interest, and both of which are taken up when due. Rule such books as may be affected by the loan and make the necessary entries therein.

(*b*) Smith buys a warehouse valued at \$10500.00 for \$9800.00, it being subject to a mortgage of \$2000.00 on which there was at the time of the purchase accrued interest of \$50.00, to be deducted from the price. He puts on a new mortgage of \$3500.00 in place of the old one, and desires that the warehouse be valued in his books at the real value, \$10500.00. Make entries to show the whole transaction in Smith's books.

41. A traveler brings to you, as bookkeeper, the following memo. of collections made on behalf of his firm:

J. Brown, check for his account (less exchange, 15¢), \$55.00.

L. Green, cash on account, $25.00.

Root & Co., check on account, $125.00.

F. White, cash in full of account, $67.50 (5% discount allowed).

W. Green, check on account, $75.00 (less exchange, 50¢).

H. Clark, check on account, $250.00 (less exchange, 50¢).

S. Henry, cash on account, $100.00.

W. Weir, check in full (exchange, 25¢ and 3% discount allowed), $141.30.

J. Taylor, cash in full of account, $152.25.

J. Stuart, check on account, $175.00.

The above figures of receipts being as handed in to the firm, the traveler deducts from his collections the amount of his expenses, $47.50; and having allowed J. Taylor discount of $3.00 in error, is to be charged with this by you. Deducting this, you pay him his month's salary of $75.00 by check, and deposit the balance in bank. Exchange to be paid by you, and discount to be written off.

Rule suitable books and make entries, omitting ledger.

42. The Brown Trading Company finds itself unable to meet its liabilities. You are asked to make a statement showing Net Insolvency. You find the following information from the books.

Cash on hand, $4.00; Cash in Bank, $80.00; Real Estate mortgaged to creditors, $3000.00; Bank Stock, held as security by other creditors, $20000.00; Office Furniture, $400.00 (this you estimate will sell for 50% of its value); Mdse. on hand at Head Office, good $1000.00, doubtful $300.00 (will produce 25% of face value), bad, $300.00; Mdse. on hand at branch stores, $20000.00 (will produce 70¢ on the dollar); four branch stores, $40000.00 (will realize 50%); creditors unsecured, $9000.00; creditors fully secured, $2300.00 (these hold the $3000.00 mortgage on real estate); creditors partly secured, $35000.00 (these hold the $20000.00 Bank Stock); creditors for wages, etc., $800.00; Bills Payable, $30000.00; creditors at branch stores, $4800.

Submit necessary statement.

After arranging for preferred creditors for wages, and for

secured creditors in as far as they hold security, how many cents on the dollar will the estate pay to the unsecured creditors, together with balance of secured creditors?

43. (*a*) A and B form a partnership, each investing $2000. During the year they have expended for equipment as follows: Real estate, $1500, subject to a mortgage of $500; machinery, $900; teams, $175; furniture and fixtures, $215. Their Expenditures for operation were: Salaries, $1200; telephone, $60; insurance, $75; advertising, $140; general expenses, $268.75. At the close of the year, their purchases are shown to be $10216.80; sales, $16790.50; notes on hand, $3275; accounts due them, $6250.75; accounts due by them, $2168.80; notes due others, $817. Their inventory is: Mdse., $3516.20; machinery, write off 10 % and create a reserve; real estate, $1400; teams, $160; fixtures, $200; accrued interest on bills payable, $75. Accounts aggregating $115 are considered doubtful; create a reserve. Make a statement of resources and liabilities, and a statement of losses and gains.

(*b*) The above business was incorporated by A, B, and C, as the A, B, C Company, with a capital of $25000, shares, $25 each. A and B each subscribed to 240 shares, and paid for same by turning over their entire resources and liabilities. C subscribed to 200 shares and paid in cash. During the year additional subscriptions are made as follows: D, 100 shares, ½ in cash and ½ by note; E, 100 shares, who deeded to the company a plot of real estate subject to a mortgage of $1000, in which his equity is sufficient to pay for his stock; F, 20 shares, for which he paid in full. At the close of the year a profit of $3000 is shown and a 10 % dividend declared. During the second year the company sells its unsubscribed stock at a premium of $5 a share. In order to enlarge the plant, it issued $5000 worth of 4 % bonds, payable in 10 years, secured by a mortgage on the real estate. At the close of this year, from a profit of $3000, a 10 % dividend is declared. Make entries on the books of A and B, and on the books of the company, if the same ledger is used. Also make an entry for setting aside the first installment to a sinking fund to meet the bonded debt.

44. The following data are taken from a set of books that

have been kept by so-called single entry. The firm of Brown & White is a partnership in which they share profits and losses equally. Each partner received a salary of $150 per month.

Adjust the accounts, prepare the necessary financial statements, and show the journal entry required to change the books to double entry; (*a*) in case the same ledger is used; and (*b*) in case a new ledger is used.

OCT. 1, 1908. Brown's investment, $20000, his personal acct., Dr. $2800; White's investment, $15000, his personal acct., Dr. $2100, and Cr. $390. The firm has a special loan from Brown of $4000, dated April 1, 1908, at 6% interest, both principal and interest payable in one year; cash and cash items, $3450; goods in stock, $37600; consigned goods in storeroom, $1080, and $55 accrued charges on same; store and lot valued at $8000; furniture and fixtures, $2800; horses and wagons estimated, $950; book accounts, $14590, expected to net 95%; salaries and wages paid, $5725; wages paid ahead, $92; salaries due and unpaid, $45; interest paid, $84; accounts payable, $6930 (only one third of this amount is shown on the books, the remainder is gleaned from other sources); trade notes outstanding, $1540; notes receivable, $2680 (one of these notes for $1000 is lodged with the bank as security for a temporary loan of $600, for which they hold the firm's collateral note), the remaining notes for $1680 are under discount at the bank; mortgage on store and lot, $4000, interest accrued on same for 3 months, at 5%; sales of merchandise, $64000. For the past 4 months salaries to partners have been charged to their private accounts. Taxes and insurance prepaid are estimated at $210. The books are to be kept hereafter by double entry.

45. The Rapid Motor Co. is incorporated with a capital of $250000 (divided into 10000 shares), by Amos Squires and Owen Jacobs. Jas. and Amos Squires, who had been conducting the business as an equal partnership, owned the following resources: Cash, $25000; material, $4600; tires, $720; brass metal, $4675.40; finished machines, $10746.80; tops, $280.70; batteries, $1868.25; testing machinery, $4596.78; machinery for manufacturing, $24680.90; store and exhibit rooms equipment, $2769.40; plant, $44867.75; accounts re-

ceivable, $16864.80. Their liabilities were: Accounts payable, $6450.70; bills payable, $2145. Jas. Squires and Amos Squires each receive $70000 in full-paid stock for their net interests in the old business. Jacobs takes 400 shares, pays $5000 in cash, and agrees that his future dividends shall be credited toward the payment of his stock. At the close of the first year, the ledger shows these balances: Capital Stock, Cr. $250000; Treasury Stock, Dr. $100000; Cash, Dr. $25650; Tires, Dr. $9275; Brass Metal, Dr. $15650.80. Sales: Finished Machines (Manufacturing Account), Cr. $45890.60; Tops, Dr. $1260; Batteries, Dr. $2750.40; Testing Machinery, Dr. $4650.70; Machinery for Manufacturing, Dr. $25560.75; Store Exhibit Rooms Equipment, Dr. $2896.20; Plant, Dr. $56847.50; Accts. Rec. and Goodwill, Dr. $13468.90; Stock in Subsidiary Companies, Dr. $20000; Accounts Payable, Cr. $2595.30; Advertising, Dr. $5650; Insurance, Dr. $275; Salaries and Wages, Dr. $12700; Expenses, Dr. $1850.65. Inventory and Memoranda: Tires, $650.70; Brass, $2460.80; machines, $24975.40; tops, $560; batteries, $547.80; machinery (testing), $4050; stock in subsidiary companies, $20000; write off 10 % from manufacturing machinery and exhibit rooms equipment for depreciation; create a reserve of 3 % of book debts for those considered doubtful; at the time of closing, wages are due but unpaid, amounting to $780.60; write off 2 % from plant for depreciation. It was decided to place $4000 in surplus and to declare a dividend of 10 %. Prepare statements to show the company's business for the year, and its present condition.

NOTE. Prepare trial balances for beginning and end of year, in order to compare amounts.

46. A and B are each conducting a separate business, but enter into a speculative partnership as a side line of Jan. 1, 1908, to buy and sell automobiles. Purchases and sales are made sometimes by A and sometimes by B, and each puts his transactions through his own business accounts, as no partnership books or accounts are kept. They agree to divide Profits and Losses equally after allowing or charging interest at 6 % per annum on Cash received or paid. From the following infor-

mation prepare statements showing the amount due to or by each partner at the time of the dissolution of the partnership on Dec. 38, 1908:

JAN. 1 — A buys for cash two automobiles for $2500.00.

JAN. 12 — A pays expenses connected with above, $50.00.

MAR. 16 — B pays expenses connected with above, $50.00.

JUNE 1 — B pays expenses connected with above, $51.00.

JUNE 30 — B sells for cash above automobiles for $2800.00.

JULY 2 — B buys for cash five automobiles averaging $1500.00 each.

JULY 30 — A pays expenses connected with above, $125.00.

AUG. 30 — A pays expenses connected with above, $15.00.

SEPT. 1 — B sells the five automobiles for $8200.00.

SEPT. 6 — A buys one automobile for $800.00.

SEPT. 12 — A sells above automobile for $950.00.

Compute interest on even months, unless it varies more than four days.

EXERCISE 60

General Review Questions

1. Give three different forms of ledger rulings.

2. Three ledgers are kept, General, Sales, and Purchase. How is the trial balance taken off each?

3. Describe the following: Private Ledger, General Ledger, Balance Ledger, Expense Ledger, Stockholders' Ledger, Cost Ledger.

4. A retail firm has cash sales, credit sales, and C. O. D. sales. How should the books be arranged to take care of these?

5. How does the ledger remain in balance when you are continually closing accounts, and bringing down the balances of others?

6. Would the trial balance prove if you entered therein the balances of some accounts and the debit and credit footings of others? Why?

7. What kind of entries on books result in either a gain or a loss?

8. What entries result in neither a gain nor a loss?

9. What advantage is gained by depositing all cash receipts in the bank and making all payments by check?

10. In the above, what provision should be made for payment of petty expenses, as car fares, telegrams, express, etc.?

11. How is the gain or loss found in accounts which have both resource and liability inventories?

12. If the goods are inventoried too high, what effect will it have on the gain of the year? On the gain of the following year?

13. Orders for goods are usually made out either in duplicate, triplicate, or quadruplicate. Explain in each case what use is made of the extra copies.

14. A large retail store has both cash and credit sales. Explain how these should be handled and what records should be made before entering them on the books.

15. You are able to tell to the cent at any time the amount of cash on hand and in the bank; could the same thing be done in connection with merchandise in the store and warehouse? Explain.

16. Is there any advantage in using journal entries for closing the ledger or for making transfers? Explain.

17. Explain the form and use of an Inventory Book. What does it usually contain?

18. You receive a sight draft too late in the day to present for payment. Should it be included in the cash receipts for the day? Why?

19. The grocer in delivering articles C. O. D. finds it necessary to send cash with the delivery for the purpose of making change. How should this be recorded on the books?

20. Is interest on partners' investments a loss to the business? Interest on bonds? Cash discounts to customers? Freight on goods purchased? Explain.

21. How are the profits of a partnership divided? Of a bank? Of a manufacturing company having both common and preferred stock?

22. On Dec. 31 you received a shipment of goods and sold part of them the same day. The remainder was included in the inventory and the books closed, but no entry was made for the

purchase as the invoice had been returned for correction. What entry should be made when the omission is discovered, and when the corrected invoice arrives? What could have been done to prevent such an error?

23. What is meant by surplus account? What does it consist of? When debited and credited?

24. What is a *reserve for bad debts*, and how is it recorded on the books? *A reserve for depreciation?*

25. If the debits and credits of the ledger are always equal, how can there be a loss or gain?

26. A firm consists of two partners. They have each taken out an endowment policy in favor of the firm, which pays all premiums. What entries should be made, (1) when the annual premiums are paid, (2) for the accumulated value of the policy at the end of each year, (3) in case one of the partners dies?

27. You make monthly payments of $10 into a Building and Loan Association. What entries are made for the installments, and for the accumulated earnings at the end of each year?

28. What are *fixed* and *floating* assets? *Cash* and *current* assets?

29. Explain *capital* and *current* liabilities; Contingent liabilities; Funded debt; Loan capital.

30. What is a Trading account? Manufacturing account? Loss and Gain account? Real account? Nominal account? Controlling account?

31. Give the accounts necessary for the general ledger of a wholesale hardware company, and show the order in which they should be opened.

32. Two young men of equal education began work in the office of a large company. At the end of ten years one was credit man on $5000 salary, and the other assistant bookkeeper on $1200. How do you account for this difference in salaries and positions?

33. Buildings, machinery, tools, and furniture depreciate in value each year because of wear and tear. How should this depreciation be recorded in the accounts?

34. What are royalties, bonus, goodwill? How are they handled on the books?

35. What is the difference between *manufacturing* and *operating* expenses?

36. What is the utility of yearly comparative statements? From what data are they compiled?

37. How would you treat goods shipped on approval (*a*) at time of sale? (*b*) When closing the books?

38. What are fictitious assets? How are they handled on the books?

39. What is collateral security? Hypothecation? Cumulative voting?

40. Explain "ex-dividend," "ex-interest," "ex-rights," "passing a dividend," "declaring a dividend," "closing the transfer books."

41. Define the following and state how they should be treated on the books: Patent, patterns, copyright, option, franchise, organization expenses, stock discount, stock premium.

42. The auditor and two assistants will be on hand soon to make the annual audit; what preparations should you make to facilitate their work?

43. Describe registered, coupon, serial, and refunding bonds.

44. Give a list of books that would be used in a national bank, and state briefly what each should contain.

45. What are petty accounts? Suspense accounts? Transient accounts? Doubtful accounts? How are they handled on the books?

46. What is a *sinking fund?* How is it formed, and recorded on the books?

47. What is the best method of securing receipts for payments of money?

48. What is the difference between a double and a single entry ledger? Cash book? Journal? Sales Book?

49. What are the functions of a Trust Company? Loan Company? Pawnbroker?

50. Rule up the form of a petty cash book and show the manner of entering at least three payments. Show it closed as at the end of the month.

51. When you have the books of your company closed and

the statements. nearly completed, word is received that King, who owes the company $1000, has failed and can pay only 50 cents on the dollar. What adjustment, if any, should be made on the books?

52. Should you consider it legitimate for a board of directors of a company to pay dividends by giving promissory notes?

53. What difference in books and accounts would exist between a partnership and an incorporated company carrying on a similar business?

54. What do you understand by the term *Net Profit?* State the final disposition of net profit in the books of a partnership, and in the books of a corporation.

55. May a Surplus Account be maintained on a set of partnership books? If so, for what purpose?

56. What is the difference between a *balance sheet* and a *statement of assets and liabilities?*

57. In the preparation of comparative statements, why should the percentage be calculated on the turnover instead of on sales?

58. How may purchases and expense bills be handled without opening accounts with creditors?

59. In the above, is there any advantage gained by so doing? What precaution must be taken at the end of the year?

60. What is the difference between Surplus Account and Undivided Profits account?

61. What disposition should be made of discounts on sales and purchases?

62. What is a contingent fund? A sinking fund reserve account? State in each case whether it is a debit or credit account.

63. If a physical inventory is not taken, how can the value of goods on hand be found?

64. Banks often begin business with a Surplus; how and for what purpose may this be done?

65. You have fifty employees who are paid by the hour; how would you keep a record of their time?

66. Explain the use of a check register, of a voucher check, of uniform bills of lading.